

CITY OF EATON RAPIDS, MICHIGAN
EATON COUNTY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
AND
INDEPENDENT AUDITORS' REPORT

Auditing Procedures Report

Instructions and MuniCodes

*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.08)

Unit Name* CITY OF EATON RAPIDS	County* EATON	Type* CITY	MuniCode* 23-2-020
Opinion Date-Use Calendar* Dec 18, 2008	Audit Submitted-Use Calendar* Dec 23, 2008	Fiscal Year End Month* 06	Fiscal Year* 2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> ?	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin)?
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> ?	13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/> ?	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input type="checkbox"/> ?	18. Are there reported deficiencies? <input checked="" type="checkbox"/> 19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="checkbox"/> ? \$ 2,656,944.00
General Fund Expenditure:	<input type="checkbox"/> ? \$ 2,552,284.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	<input type="checkbox"/> ? \$ 793,470.00
Governmental Activities Long-Term Debt (see instructions):	<input type="checkbox"/> ? \$ 2,875,000.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* MERRICK	Last Name* RICHARDSON	Ten Digit License Number* 1101005710		
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Layton & Richardson, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
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Eaton Rapids, Michigan

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We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Eaton Rapids, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Eaton Rapids, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinions, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Eaton Rapids, Michigan, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons for the general fund and each major special revenue fund, for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2008, on our consideration of the City of Eaton Rapids, Michigan's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and the budgetary comparison information on pages 3 through 8 are not a required part of the basic financial statement but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted primarily of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Eaton Rapids, Michigan's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Layton + Richardson PC

Certified Public Accountants

East Lansing, Michigan
December 18, 2008

City of Eaton Rapids, Michigan

Management's Discussion and Analysis

The City of Eaton Rapids' discussion and analysis is a narrative overview of the City's financial activities for the year ended June 30, 2008. The information presented here should be read in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the twelve month period ended June 30, 2008:

- State shared revenues, our second largest General Fund revenue source, are projected to be stable for the next fiscal year, however recently revised state revenue projections leave these funds a future target should the state economy continue to trend downward in the third and fourth quarter of 2008. There have been discussions among the various stakeholders on the restructuring of state revenues for local governments; however, no timetable for solutions has yet emerged. What appears to be clear is that the structural inequities incorporated into the implementing legislation for the Headley Amendment created a long term problem for most if not all cities, including the City of Eaton Rapids. Hopeful signs include recognition by the state that maintaining services and infrastructure of incorporated cities and villages has strategic importance in its recovery.
- Interest revenue from investments remains lower than recent historical trends due to national monetary policy. This trend is not expected to reverse itself during the next twelve months.
- Recent legislative activity at both the state and federal level have put in question the general fund revenue received from franchise fees, and it is anticipated that this revenue source will trend downward over the course of the next few years.
- The local property tax base is no longer growing and state equalized value will start to trend down as it has in many surrounding jurisdictions. The resulting decrease in tax revenue will put additional pressure on the ability to maintain services, particularly those using dollars from the general fund. City charter limitations on the number of mills that can be generated from taxes has historically resulted in a reliance on a payment in lieu of taxes transfer from the utility fund, but in the face of increasing energy costs, the ability to maintain that relationship will come under increasing pressure.
- Total net assets related to the City's governmental activities increased by approximately \$165,372.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Eaton Rapids on a government-wide basis. They are designed to present a longer-term view of the City's finances, measuring the cost of providing services during the current year and estimating how closely the taxpayers have funded the full cost of providing government services.

Fund financial statements follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. Additionally, fund financial statements report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds.

Reporting the City of Eaton Rapids as a Whole

One of the most important questions asked about the City of Eaton Rapids' finances is, "Is the City of Eaton Rapids as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City of Eaton Rapids as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City of Eaton Rapids' *net assets* and changes in them. You can think of the City of Eaton Rapids' net assets – the difference between assets and liabilities – as one way to measure the City of Eaton Rapids' financial health, or *financial position*. Over time, *increases* or *decreases* in the City of Eaton Rapids' net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City of Eaton Rapids' captured property tax base to assess the *overall health* of the City of Eaton Rapids.

Reporting the City of Eaton Rapids' Most Significant Funds

The fund financial statements provide detailed information about the City of Eaton Rapids' funds. The City of Eaton Rapids' funds utilize the *governmental* accounting approach.

- **Governmental funds** – Most of the City's basic services are reported in governmental funds which focus on how money flows in to and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified* accrual accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation statement presented with the fund financial statements.
- **Proprietary Funds** – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary Fund statements provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. In comparing the proprietary fund statement of net assets to the business-type column on the government-wide statement of net assets, the total net assets and liabilities agree.
- **Fiduciary Funds** – Fiduciary Funds are used to account for resources held for the benefit of parties outside the core city government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Eaton Rapids' own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.
- **Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided, and are an integral part of the government-wide and fund financial statements.
- **Other Information** – In addition to the basic financial statements and accompanying notes, this report also contains certain required supplementary information concerning budgetary comparisons of the General Fund. The combining statements in connection with non-major governmental funds are presented immediately following the notes to financial statements.

City of Eaton Rapids, Michigan

Management's Discussion and Analysis (continued)

The City of Eaton Rapids as a Whole

Statement of Net Assets – As noted earlier, changes in net assets may serve as a useful indicator of a government's financial position. The City of Eaton Rapids' assets exceeded total liabilities by \$13,994,697 at the close of June 30, 2008. The following table shows, in a condensed format, the net assets as of June 30, 2008 and 2007.

City of Eaton Rapids' Net Assets June 30, 2008 and 2007

	GOVERN- MENTAL ACTIVITIES 2008	GOVERN- MENTAL ACTIVITIES 2007	BUSINESS- TYPE ACTIVITIES 2008	BUSINESS- TYPE ACTIVITIES 2007	TOTALS 2008	TOTALS 2007
Current assets	\$ 2,508,848	\$ 2,361,399	\$ 1,901,542	\$ 2,352,224	\$ 4,410,390	\$ 4,713,623
Noncurrent assets						
Restricted assets			1,807,250	1,823,665	1,807,250	1,823,665
Capital assets	<u>5,370,851</u>	<u>5,508,432</u>	<u>16,416,284</u>	<u>17,090,677</u>	<u>21,787,135</u>	<u>22,599,109</u>
TOTAL ASSETS	\$ <u>7,879,699</u>	\$ <u>7,869,831</u>	\$ <u>20,125,076</u>	\$ <u>21,266,566</u>	\$ <u>28,004,775</u>	\$ <u>29,136,397</u>
Current liabilities	\$ 364,716	\$ 344,572	\$ 1,420,167	\$ 1,655,695	\$ 1,784,883	\$ 2,000,267
Long-term liabilities	<u>2,949,416</u>	<u>3,125,064</u>	<u>9,275,779</u>	<u>9,899,746</u>	<u>12,225,195</u>	<u>13,024,810</u>
TOTAL LIABILITIES	3,314,132	3,469,636	10,695,946	11,555,441	14,010,078	15,025,077
Net assets						
Invested in capital assets –						
Net of related debt	140,324	559,847	6,525,209	6,591,911	6,665,533	7,151,758
Restricted	238,607	198,221	2,281,046	2,581,307	2,519,653	2,779,528
Unrestricted	<u>4,186,636</u>	<u>3,642,127</u>	<u>622,875</u>	<u>537,907</u>	<u>4,809,511</u>	<u>4,180,034</u>
TOTAL NET ASSETS	\$ <u>4,565,567</u>	\$ <u>4,400,195</u>	\$ <u>9,429,130</u>	\$ <u>9,711,125</u>	\$ <u>13,994,697</u>	\$ <u>14,111,320</u>

Approximately 3% of the City's net assets of governmental activities reflect its investment in capital, less any related debt used to acquire those assets that is still outstanding. The City's capital assets are used to provide services to citizens. Consequently, these assets are not available for future spending. Restricted net assets represent resources that are subject to external restrictions on how they may be used. Unrestricted net assets of governmental activities of \$4,186,636 represent the amount that may be used to meet the City's ongoing obligations.

Changes in Net Assets – The City's total net assets decreased by \$118,765 during the current fiscal year. Governmental activities net assets increased by \$165,372 and the Business-type activities net assets decreased by \$281,997.

City of Eaton Rapids, Michigan

Management's Discussion and Analysis (continued)

City of Eaton Rapids Changes in Net Assets For fiscal years ended June 30, 2008 and 2007

	GOVERN- MENTAL ACTIVITIES 2008	GOVERN- MENTAL ACTIVITIES 2007	BUSINESS- TYPE ACTIVITIES 2008	BUSINESS- TYPE ACTIVITIES 2007	TOTALS 2008	TOTALS 2007
Revenues						
Program revenue						
Charges for services	\$ 335,886	\$ 229,222	\$ 8,807,225	\$ 8,621,185	\$ 9,143,111	\$ 8,850,407
Operating grants and contributions	380,673	379,710			380,673	379,710
General revenue						
Property taxes	1,100,579	1,066,877	595,124	606,502	1,695,703	1,673,379
Federal grant	191,667	118,564	12,816		204,483	118,564
State shared revenue	479,873	467,156			479,873	467,156
Miscellaneous	197,828	169,410	104,880	58,339	302,708	227,749
Restricted investment earnings			76,794	79,811	76,794	79,811
Unrestricted investment earnings	73,126	92,742	63,834	62,190	136,960	154,932
Transfers	<u>1,231,041</u>	<u>1,306,792</u>			<u>1,231,041</u>	<u>1,306,792</u>
Total Revenues	<u>3,990,673</u>	<u>3,830,473</u>	<u>9,660,673</u>	<u>9,428,027</u>	<u>13,651,346</u>	<u>13,258,500</u>
Program Expenses						
General government	492,952	479,999			492,952	479,999
Public safety	981,683	959,702			981,683	959,702
Public works	543,351	465,421	8,661,629	8,260,658	9,204,980	8,726,079
Community development & enrichment	226,281	222,639			226,281	222,639
Highways and streets	544,705	402,118			544,705	402,118
Culture and recreation	107,867	106,815			107,867	106,815
Other	504,972	417,097			504,972	417,097
Interest on long-term debt	152,658	152,012			152,658	152,012
Depreciation	272,972	279,340			272,972	279,340
Transfers			<u>1,281,041</u>	<u>1,306,792</u>	<u>1,281,041</u>	<u>1,306,792</u>
Total program expenses	3,827,441	3,485,143	9,942,670	9,567,450	13,770,111	13,052,593
Increase (decrease) in net assets	163,232	345,330	(281,997)	(139,423)	(118,765)	205,907
Net assets, July 1	4,400,195	3,739,956	9,711,127	9,824,463	14,111,322	13,564,419
Residual equity transfer	2,140	244,259			2,140	244,259
Prior period adjustments		<u>70,650</u>		<u>26,085</u>		<u>96,735</u>
Net assets, June 30	<u>\$ 4,565,567</u>	<u>\$ 4,400,195</u>	<u>\$ 9,429,130</u>	<u>\$ 9,711,125</u>	<u>\$ 13,994,697</u>	<u>\$ 14,111,320</u>

Governmental Activities – Program revenues, which include user fees and charges and operating grants and contributions, represent 8% of total governmental revenue sources. Program revenues reduce the net cost of the governmental functions to be financed from the City's general revenues, which are comprised primarily of property taxes and State revenue sharing.

Business-type Activities – Business-type activities decreased the City of Eaton Rapids' net assets by \$281,997, all of which was in the Utility Fund. The City provides water to residents from a field of municipal water wells. Sewage treatment is provided through a City owned and operated treatment plant. Electrical power is purchased on a wholesale basis and sold at retail to residential, commercial and industrial customers within the City and on a limited basis, to customers outside the municipal boundaries of the City. Historically, revenues generated from electrical operations within the Utility Fund have served to supplement any shortfalls in the Water or Sewer operations. This continues to be the case in the current fiscal year. Rate studies which were completed in 2007 have now been phased in for both Sewer and Water operations over the past three years with the goal being that these operations will be self supporting. While revenues from the operation of the Water Department have been sufficient, Sewer Department revenues have

not been able to keep pace and additional rate adjustments may need to be considered. The City entered into a new wholesale electrical contract in 2002, but did not adjust rates at that time to reflect the increase in the cost of purchasing wholesale electrical power. Since that time, the electrical industry has been restructured resulting in significant changes in the cost of moving power from one location to another via the electrical transmission grid. As a result, these costs are passed on to customers through a component of our current electrical rate structure which is referred to as the "Purchased Power Cost Adjustment" (PPCA). This monthly adjustment allows the City to recover the increased costs associated with both the wholesale power purchases as well as the higher transmission rates. Assumptions built into the current electrical rates relating to fixed operational costs, the funding for projected capital projects and City Charter requirements to maintain specific reserve margins has resulted in ongoing discussions as to the adequacy of current rates and the need for their review in order to ensure the long term stability of this important City utility. Plans are currently underway to address electrical rates prior to adoption of a budget for our next fiscal year beginning July 1, 2009. Michigan has now adopted specific standards requiring a portion of the electrical energy we sell to be acquired from "green" power sources. This "Renewable Portfolio Standard" (RPS) and the accompanying standards for encouraging the more efficient use of energy resources (known as "Energy Optimization" or EO) set specific targets to be met over the next several years. In the current electrical market, any RPS or EO assets that will need to be built to meet this requirement will also be priced significantly above the current cost of acquiring wholesale energy from existing and more conventional sources. The pressure to revise our current electrical rate structure comes not only from these new standards but also from the fact that the current favorable wholesale rates we enjoy will expire at the end of 2011. As we enter the market to find replacement power, prices are expected to be significantly higher. Discussions are ongoing to identify ways to moderate this anticipated impact on our customers.

Financial Analysis of the City's Funds

Our analysis of the City's major funds begins on the pages following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51 major and local road revenue sharing. The City of Eaton Rapids' major funds for 2007/2008 are the general fund, the major streets fund, the local streets fund, the parks and recreation fund, the building authority fund, and the utility fund.

The general fund accounts for most of the City's governmental services. General administrative and public safety costs (police and fire) account for over 38% of the total general fund expenditures. The reduction in state shared revenues resulted in the City cutting expenses in preparation for this budget and throughout the year. While administration has stopped short of having to lay off personnel within the general fund departments, positions have been allowed to remain vacant, including positions in the public works department as well as general administrative positions. We continue to monitor the fees charged for many services, particularly those in the police department to keep current with surrounding departments and maximize revenue potential.

In reviewing activity in other funds, we find that maintaining revenues to support the building department has resulted in fee increases for some types of services this past year. A slump in activity related to new housing starts and renovations has resulted in the fund balance of that operation being depleted and this year it was necessary for the general fund to make up a shortfall for this fund. Additional subsidies from the general fund or fee increases are anticipated for the next several years due to the stalled economy. The major and local street funds continue to generate sufficient revenue to allow for the necessary street maintenance, but our ability to also provide for ongoing repair programs is now being strained. The past twelve months in particular has started a decline in gas tax revenues due to high fuel costs and a drop in tourism across Michigan. Coupled with higher snow removal costs and large increases in the cost of petroleum based repair materials we have started cutting back on the quantity of our annual repair program and expect that this will be the trend for the next several years. We currently have plans in place to rebuild the remaining portion of State Street out past the school complex, but the small urban fund through which this project is to be funded has pushed the construction date back more than once. We currently have submitted this project to alternate funding sources in hopes of seeing it to completion in a shorter term. The same "hold button" has been pushed for a major project funded primarily by the Michigan Department of Transportation which would resurface a significant portion of M50/99 through town and upgrade work to utilities and storm water systems. This project has now been pushed back until at least 2013 along with the grant funding awarded to the Downtown Development Authority that would be used to construct improvements within the street right of way also being delayed. These projects remain viable and present good value for the portion of the funds we would be expected to contribute and we believe that having projects completed sooner would assist in our economic recovery and the revitalization of our central business district. While these funding sources do require local match, only having to provide twenty to forty percent of project costs greatly expands our ability to accomplish larger projects. At the state level, longer term concern about the ability of the gas tax monies to adequately address street infrastructure needs has resulted in a report from industry experts to the Governor and Legislature that with that we have seen a number of new pieces of legislation come up for consideration this past fall that propose to change the funding sources and provide additional flexibility for all local units of government to fund needed road improvements. Many communities already need to supplement their street funds with other monies and the funding mechanism for road maintenance will need to be addressed as the state highway system also funds their construction and maintenance from this same source of money.

City of Eaton Rapids, Michigan

Management's Discussion and Analysis (concluded)

In September of 2004, the City of Eaton Rapids sold general obligation bonds in the amount of \$ 9,545,000 for improvements for the City's wastewater plant and the collection system. This project which has now been completed, involved upgrades for the treatment plant and related mechanical equipment and systems that were needed to make it function properly, many of which had not been upgraded for twenty five years. In addition, new treatment processes have been incorporated that are more effective and less costly to run from an operational standpoint. The collection system of pipes that runs throughout the City was also in disrepair and in many places let ground water enter the collection system resulting in significantly higher volumes of water being treated at the wastewater plant than would normally be the case. This project was implemented through the State Revolving Fund and is being financed by the voters of the City through extra voted millage which began in December, 2004 to help pay for the costs of these improvements. As of the end of 2008, this project has been closed out with only minor site restoration work needing to be completed in the spring. An important portion of this project involved the installing new pipes under the Grand River and although the work was not able to be completed as had originally planned we were able to fund this work and construct it as a separate project earlier this fall. As a dramatic case in point, when we were able to tie over to the new river crossing pipes, we saw a decrease of 200,000 gallons per day of water coming into the treatment plant. Such a significant reduction has both immediate and long lasting savings for our operational costs as well as the structural components of the plant.

General Fund Budgetary Highlights

Over the course of the year, the City monitors and amends the budget to take into account unanticipated events during the year. At year end, actual general fund revenues were only \$160,769 more than the original and final budget. Actual expenditures were over amended budget by \$6,109.

Capital Assets and Debt Administration

At the end of the 2008 fiscal year, the City had approximately \$21,768,650 invested in land, land improvements, buildings, water and sewer lines, vehicles and equipment. The costs incurred during the year for the electrical substation and water well projects and the improvements to the waste water treatment plant was \$260,865. The general obligation bonds sold in September, 2004, are helping to pay for the costs associated with the wastewater treatment plant. See Note 6 to the basic financial statements for additional information.

Debt reported in Note 7 to these financial statements is related to the construction and maintenance of the above-mentioned assets with the exception of CDBG loan.

Economic Factors and Next Year's Budget and Rates

The City's budget for the 2007/2008 fiscal year included the growth of the property tax base due to incremental residential growth and some industrial expansion projects. We are also starting to see some of the tax abatements granted to Meridian Magnesium Products expire and as they do, additional revenue should flow to the general fund. The City continues to levy the maximum tax rate allowable under the City Charter and within the limitations imposed by both the Headley Amendment and Proposal A. The results of the most recent State budget process have seen no new cuts to the state shared revenue that we rely on. With heightened discussion of the impact that such cuts would have on important local services, there seems to some recognition at the state level that local governments should be held harmless from further cuts. Significant attention has been given to the number of foreclosures throughout the state. Locally, we have been watching these numbers trend upward for some time. It is anticipated that the combination of vacant and foreclosed homes and falling property values will result in the same negative SEV trends that other communities across the state have begun to experience. Where such a trend leads or when it reverses is difficult to predict with any certainty in the current economic climate.

Despite these concerns, the City continues to operate with an efficient and effective labor force. We continue to provide annual albeit smaller wage increases despite the pressure of increases in medical and other personnel related costs. In addition, the funding of retiree health care is a growing concern and one that will need to be re-examined in the near future to ensure that we have adequately addressed and anticipated the future budgetary impact of providing this benefit.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

GENERAL PURPOSE FINANCIAL STATEMENTS

General purpose financial statements provide a summary overview of the financial position of all funds and account groups and of the operating results of all funds. They also serve as an introduction to the more detailed statements and schedules that follow.

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2008

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Current assets				
Cash	\$ 1,998,045	\$ 846,152	\$ 2,844,197	\$ 5,755,605
Investments	91,726		91,726	
Receivables				
Accounts (net of allowance for bad debt)		818,201	818,201	
Taxes	2,737		2,737	
Note receivable		1,008	1,008	
Due from				
Other funds	160,870	(114,694)	46,176	
State	247,481		247,481	
Other	7,989		7,989	
Advance to another fund				44,736
Inventory		350,875	350,875	
Restricted assets				
Cash and investments		1,648,560	1,648,560	
Accrued interest receivable		31,720	31,720	
Customer meter deposits		126,970	126,970	
Prepaid contribution				10,344
Noncurrent assets				
Prepaid contribution				19,826
Investment in land				131,278
Note receivable		18,485	18,485	
Advance to another fund				141,725
Capital assets (net of accumulated depreciation)	<u>5,370,851</u>	<u>16,397,799</u>	<u>21,768,650</u>	<u>1,097,591</u>
 TOTAL ASSETS	 <u>\$ 7,879,699</u>	 <u>\$ 20,125,076</u>	 <u>\$ 28,004,775</u>	 <u>\$ 7,201,105</u>

See accompanying notes to financial statements.

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
LIABILITIES				
Current liabilities				
Payables				
Accounts	\$ 61,046	\$ 564,146	\$ 625,192	\$ 17,946
Payroll and payroll taxes	33,945	25,668	59,613	1,003
Due to State		10,424	10,424	3,339,868
Due to other funds				46,176
Accrued sick and vacation pay	27,564	8,679	36,243	
Accrued interest	47,425	61,434	108,859	967
Meter deposits payable		126,970	126,970	
Bonds and notes payable	150,000	622,846	772,846	85,344
Advance from another fund	44,736		44,736	
Noncurrent liabilities				
Bonds and notes payable	2,725,000	9,249,744	11,974,744	119,826
Advance from another fund	141,725		141,725	
Accrued sick and vacation pay	82,691	26,035	108,726	
TOTAL LIABILITIES	3,314,132	10,695,946	14,010,078	3,611,130
NET ASSETS				
Invested in capital assets, net of related debt	140,324	6,525,209	6,665,533	824,035
Restricted for				
Economic development		460,354	460,354	
Bond/note retirement		506,473	506,473	
Electric utility		543,119	543,119	
Sewer utility		587,763	587,763	
Water utility		183,337	183,337	
TIFA I				440,280
Eaton Rapids Historical Society				85,514
Cemetery perpetual care	139,628		139,628	
Island project	26,387		26,387	
Fire department	72,592		72,592	
Unrestricted	4,186,636	622,875	4,809,511	2,240,146
TOTAL NET ASSETS	4,565,567	9,429,130	13,994,697	3,589,975
 TOTAL LIABILITIES AND NET ASSETS	 \$ 7,879,699	 \$ 20,125,076	 \$ 28,004,775	 \$ 7,201,105

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
FUNCTIONS/PROGRAMS			
Primary Government			
Governmental activities			
General government	\$ 542,844	\$ 76,029	\$
Public safety	1,052,336	56,025	
Public works	566,089	75,082	
Community development and enrichment	226,281		
Highways and streets	544,705		380,673
Culture and recreation	136,230	12,078	
Other	606,298	116,672	
Interest on long-term debt	152,658		
Total Governmental Activities	<u>3,827,441</u>	<u>335,886</u>	<u>380,673</u>
Business-Type Activities			
Utility fund	<u>8,661,629</u>	<u>8,807,225</u>	
Total Primary Government	<u>\$ 12,489,070</u>	<u>\$ 9,143,111</u>	<u>\$ 380,673</u>
Component Units			
LDFA Island Industrial Park	\$ 99,192	\$	\$
TIFA I Downtown Development Authority	<u>69,733</u>		
Total Component Units	<u>\$ 168,925</u>	<u>\$</u>	<u>\$</u>

See accompanying notes to financial statements.

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS				
PROGRAM REVENUES CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL	
\$	\$ (466,815)	\$	\$ (466,815)	\$
	(996,311)		(996,311)	
	(491,007)		(491,007)	
	(226,281)		(226,281)	
65,726	(98,306)		(98,306)	
	(124,152)		(124,152)	
125,941	(363,685)		(363,685)	
	(152,658)		(152,658)	
<u>191,667</u>	<u>(2,919,215)</u>		<u>(2,919,215)</u>	
<u>12,816</u>		<u>158,412</u>	<u>158,412</u>	
\$ <u>204,483</u>	<u>(2,919,215)</u>	<u>158,412</u>	<u>(2,760,803)</u>	
\$				(99,192)
				(69,733)
\$				(168,925)
General Revenues (Expenditures)				
Property taxes levied for general purposes	1,100,579	595,124	1,695,703	1,011,403
Excess captured property taxes				(464,811)
State shared revenue	479,873		479,873	
Miscellaneous	197,828	104,880	302,708	7,559
Restricted investment earnings		76,794	76,794	
Unrestricted investment earnings	73,126	63,834	136,960	180,337
Transfers in (out)	<u>1,231,041</u>	<u>(1,281,041)</u>	<u>(50,000)</u>	<u>50,000</u>
Total General Revenues (Expenditures) and Transfers	<u>3,082,447</u>	<u>(440,409)</u>	<u>2,642,038</u>	<u>784,488</u>
Change in net assets	163,232	(281,997)	(118,765)	615,563
NET ASSETS, JULY 1	4,400,195	9,711,127	14,111,322	2,976,552
RESIDUAL EQUITY TRANSFER	<u>2,140</u>		<u>2,140</u>	<u>(2,140)</u>
NET ASSETS, JUNE 30	\$ <u>4,565,567</u>	\$ <u>9,429,130</u>	\$ <u>13,994,697</u>	\$ <u>3,589,975</u>

CITY OF EATON RAPIDS, MICHIGAN

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2008

	GENERAL	MAJOR STREET	LOCAL STREET
ASSETS			
Cash	\$ 530,980	\$ 405,066	\$ 342,732
Investments			36,690
Taxes receivable	2,737		
Due from			
Other funds	144,543		
State	188,993	43,629	14,859
Other	7,093		
Lease receivable			
TOTAL ASSETS	<u>\$ 874,346</u>	<u>\$ 448,695</u>	<u>\$ 394,281</u>
 LIABILITIES AND FUND BALANCE			
LIABILITIES			
Payables			
Accounts	\$ 53,834	\$ 2,068	\$ 300
Payroll and payroll taxes	27,042	1,368	682
Deferred revenue			
TOTAL LIABILITIES	<u>80,876</u>	<u>3,436</u>	<u>982</u>
FUND BALANCE			
Reserved for Island project			
Reserved for cemetery perpetual care			
Reserved for fire department			
Reserved for debt service			
Unreserved, reported in			
General fund	793,470		
Special revenue funds		445,259	393,299
TOTAL FUND BALANCE	<u>793,470</u>	<u>445,259</u>	<u>393,299</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 874,346</u>	<u>\$ 448,695</u>	<u>\$ 394,281</u>

See accompanying notes to financial statements.

PARKS AND RECREATION	COMPONENT UNIT BUILDING AUTHORITY	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 61,280	\$ 528	\$ 306,731	\$ 1,647,317
55,036			91,726
			2,737
			144,543
896			247,481
	2,875,000		7,989
			2,875,000
<u>117,212</u>	<u>2,875,528</u>	<u>306,731</u>	<u>5,016,793</u>
\$	\$	\$	\$
4,098		746	61,046
3,297		1,556	33,945
	2,875,000		2,875,000
<u>7,395</u>	<u>2,875,000</u>	<u>2,302</u>	<u>2,969,991</u>
26,387			26,387
		139,628	139,628
		72,592	72,592
	528		528
			793,470
83,430		92,209	1,014,197
<u>109,817</u>	<u>528</u>	<u>304,429</u>	<u>2,046,802</u>
\$ <u>117,212</u>	\$ <u>2,875,528</u>	\$ <u>306,731</u>	\$ <u>5,016,793</u>

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CITY OF EATON RAPIDS, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2008

Total fund balance - governmental funds		\$	2,046,802
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets \$7,918,650 and the accumulated depreciation is \$3,017,014.			4,901,636
An internal service fund is used by the City's management to charge the costs of vehicle use to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.			649,809
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.			
Long-term liabilities at year-end consist of:			
Bonds and loan payable	\$	(2,875,000)	
Accrued interest		(47,425)	
Compensated absences		<u>(110,255)</u>	<u>(3,032,680)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		\$	<u><u>4,565,567</u></u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	GENERAL	MAJOR STREET	LOCAL STREET
REVENUES			
Taxes and special assessments	\$ 1,000,659	\$	\$
Licenses and permits	28,170		
Intergovernmental			
State	479,873	289,994	90,679
Federal			65,726
Charges for services	76,029		
Fines and forfeits	56,025		
Interest and rentals	107,329	14,275	14,529
Other revenues	133,418		5,016
TOTAL REVENUES	<u>1,881,503</u>	<u>304,269</u>	<u>175,950</u>
EXPENDITURES			
General government	481,284		
Public safety	974,489		
Public works	532,829		
Culture and recreation			
Community development and enrichment	225,113		
Debt service			
Principal retirement			
Interest and fiscal charges			
Other	205,410		
Highways and streets		324,848	285,149
Capital outlay	56,159		
TOTAL EXPENDITURES	<u>2,475,284</u>	<u>324,848</u>	<u>285,149</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(593,781)</u>	<u>(20,579)</u>	<u>(109,199)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	775,441		20,000
Operating transfers out	(77,000)	(20,000)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>698,441</u>	<u>(20,000)</u>	<u>20,000</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	104,660	(40,579)	(89,199)
FUND BALANCE, JULY 1	686,670	485,838	482,498
RESIDUAL EQUITY TRANSFER	2,140		
FUND BALANCE, JUNE 30	<u>\$ 793,470</u>	<u>\$ 445,259</u>	<u>\$ 393,299</u>

See accompanying notes to financial statements.

PARKS AND RECREATION	COMPONENT UNIT BUILDING AUTHORITY	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 99,920	\$	\$	\$ 1,100,579
			28,170
			860,546
12,078		125,941	191,667
		116,672	204,779
6,756		5,319	56,025
28,175		3,049	148,208
<u>146,929</u>	<u></u>	<u>250,981</u>	<u>169,658</u>
			<u>2,759,632</u>
			481,284
			974,489
			532,829
131,605			131,605
			225,113
	150,000		150,000
	148,350		148,350
		231,680	437,090
			609,997
<u>1,884</u>	<u></u>	<u></u>	<u>58,043</u>
<u>133,489</u>	<u>298,350</u>	<u>231,680</u>	<u>3,748,800</u>
<u>13,440</u>	<u>(298,350)</u>	<u>19,301</u>	<u>(989,168)</u>
3,000	297,100	80,000	1,175,541
<u></u>	<u></u>	<u></u>	<u>(97,000)</u>
<u>3,000</u>	<u>297,100</u>	<u>80,000</u>	<u>1,078,541</u>
16,440	(1,250)	99,301	89,373
93,377	1,778	205,128	1,955,289
<u></u>	<u></u>	<u></u>	<u>2,140</u>
\$ <u><u>109,817</u></u>	\$ <u><u>528</u></u>	\$ <u><u>304,429</u></u>	\$ <u><u>2,046,802</u></u>

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CITY OF EATON RAPIDS, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

Net changes in fund balances - total governmental funds	\$ 89,373
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.	
Expenditures for capital assets and work in progress	109,488
Less: current year depreciation	(272,972)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.	
Accrued interest	2,017
Principal payments	150,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in long-term compensated absences	(14,617)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net (expense) of the internal service funds is reported with governmental activities.	
	<u>99,943</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 163,232</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

JUNE 30, 2008

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS UTILITY FUND	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 846,152	\$ 350,728
Receivables		
Accounts	818,201	
Due from other funds	46,176	16,327
Note receivable	1,008	
Inventory	<u>350,875</u>	
TOTAL CURRENT ASSETS	<u>2,062,412</u>	<u>367,055</u>
RESTRICTED ASSETS		
Cash and investments	1,775,530	
Accrued interest	<u>31,720</u>	
TOTAL RESTRICTED ASSETS	<u>1,807,250</u>	
PROPERTY, PLANT AND EQUIPMENT		
Vehicles		679,336
Work in progress	190,858	
Water department	7,006,676	
Electric department	6,873,630	
Sewage department	<u>14,161,632</u>	
	28,232,796	679,336
Less: accumulated depreciation	<u>11,834,997</u>	<u>210,121</u>
NET PROPERTY, PLANT AND EQUIPMENT	<u>16,397,799</u>	<u>469,215</u>
OTHER ASSETS		
Note receivable - long-term	<u>18,485</u>	
 TOTAL ASSETS	 <u><u>\$ 20,285,946</u></u>	 <u><u>\$ 836,270</u></u>

See accompanying notes to financial statements.

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS UTILITY FUND	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Bonds payable	\$ 580,000	\$
Notes payable	42,846	
Accounts payable	564,146	
Accrued interest payable	61,434	
Accrued sick and vacation	34,714	
Accrued payroll	25,668	
Due to other funds	160,870	
Advance from another fund		44,736
Due to state	10,424	
TOTAL CURRENT LIABILITIES	<u>1,480,102</u>	<u>44,736</u>
LONG-TERM LIABILITIES		
Advance from another fund		141,725
Bonds payable	9,113,100	
Notes payable	136,644	
TOTAL LONG-TERM LIABILITIES	<u>9,249,744</u>	<u>141,725</u>
RESTRICTED LIABILITIES		
Refundable meter deposits	<u>126,970</u>	
TOTAL LIABILITIES	<u>10,856,816</u>	<u>186,461</u>
NET ASSETS		
NET ASSETS		
Reserved for		
Economic development	460,354	
Bond/note retirement	506,473	
Electric utility	543,119	
Sewer utility	587,763	
Water utility	183,337	
Unrestricted	<u>7,148,084</u>	<u>649,809</u>
TOTAL NET ASSETS	<u>9,429,130</u>	<u>649,809</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 20,285,946</u>	<u>\$ 836,270</u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES
	UTILITY FUND	INTERNAL SERVICE FUNDS
OPERATING REVENUES		
Charges for services	\$ 8,807,225	\$
Fines and forfeitures	22,337	
Other revenue	<u>82,543</u>	<u>611,467</u>
TOTAL OPERATING REVENUES	<u>8,912,105</u>	<u>611,467</u>
OPERATING EXPENSES		
Personnel services	1,063,505	
Contractual services	218,454	
Supplies	36,708	
Materials	161,392	
Utilities	176,899	
Telephone	23,597	
Insurance	40,876	
Maintenance	4,973,244	
Benefit payments	521,070	650,397
Other expense	50,292	8,480
Depreciation	<u>1,144,599</u>	<u>67,507</u>
TOTAL OPERATING EXPENSES	<u>8,410,636</u>	<u>726,384</u>
OPERATING INCOME (LOSS)	<u>501,469</u>	<u>(114,917)</u>
NONOPERATING REVENUES (EXPENSES)		
Property taxes	595,124	
Federal grant	12,816	
Gain on sale of capital assets		243
Interest earned	140,628	935
Interest expense	<u>(250,993)</u>	<u>(6,325)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>497,575</u>	<u>(5,147)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	999,044	(120,064)
OPERATING TRANSFERS		
Operating transfers in (out)	<u>(1,281,041)</u>	<u>152,500</u>
NET INCOME (LOSS)	(281,997)	32,436
NET ASSETS, JULY 1	<u>9,711,127</u>	<u>617,373</u>
NET ASSETS, JUNE 30	<u>\$ 9,429,130</u>	<u>\$ 649,809</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS UTILITY FUND	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 8,779,391	\$
Cash received from other funds		596,813
Cash received from penalties	22,337	
Cash received from miscellaneous	95,359	14,654
Payments to suppliers	(6,326,687)	(675,204)
Payments to employees	<u>(1,059,850)</u>	
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>1,510,550</u>	<u>(63,737)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment on interfund borrowing		(49,864)
Proceeds from note receivable	984	935
Interest income	<u>149,795</u>	
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>150,779</u>	<u>(48,929)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Federal grants	12,816	
Loan to other funds	(25,050)	
Due to other funds	8,777	
Operating transfers in (out)	<u>(1,281,041)</u>	<u>152,500</u>
NET CASH PROVIDED BY (USED IN) NON-CAPITAL FINANCING ACTIVITIES	<u>(1,284,498)</u>	<u>152,500</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Property taxes	595,124	
Increase in restricted assets	7,254	
Decrease in restricted liabilities	(7,250)	
Principal payments on long-term debt	(626,177)	
Interest and fiscal charges	(255,528)	
Gain on sale of assets		243
Purchase of capital assets	<u>(451,723)</u>	<u>(25,904)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(738,300)</u>	<u>(25,661)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(361,469)	14,173
CASH AND CASH EQUIVALENTS, JULY 1	<u>1,207,621</u>	<u>336,555</u>
CASH AND CASH EQUIVALENTS, JUNE 30	\$ <u>846,152</u>	\$ <u>350,728</u>
See accompanying notes to financial statements.		

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF CASH FLOWS - Concluded
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS UTILITY FUND	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	\$ 501,469	\$ (114,917)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	1,144,599	67,507
Changes in assets and liabilities		
Increase in accounts receivable	(15,018)	
Decrease in inventory	(51,059)	
Increase in accounts payable	(71,878)	
Increase in accrued payroll	5,541	
Decrease in accrued sick and vacation	(1,885)	
Advance from other funds		(16,327)
Increase in other liabilities	(1,219)	
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ <u>1,510,550</u>	\$ <u>(63,737)</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

	TRUST AND AGENCY FUND	AGENCY FUND TAX FUND	TOTAL
ASSETS			
Cash	\$ <u>753</u>	\$ <u>1,310</u>	\$ <u>2,063</u>
 LIABILITIES AND FUND BALANCE			
LIABILITIES			
Due to local units	\$ <u>753</u>	\$ <u>1,310</u>	\$ <u>2,063</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN

BALANCE SHEET

NON-MAJOR GOVERNMENTAL FUNDS

JUNE 30, 2008

	SPECIAL REVENUE	CAPITAL PROJECTS	PERMANENT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS				
Cash	\$ <u>94,511</u>	\$ <u>72,592</u>	\$ <u>139,628</u>	\$ <u>306,731</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 746	\$	\$	\$ 746
Accrued payroll	<u>1,556</u>	<u></u>	<u></u>	<u>1,556</u>
TOTAL LIABILITIES	<u>2,302</u>	<u></u>	<u></u>	<u>2,302</u>
FUND BALANCE				
Reserved for cemetery perpetual care			139,628	139,628
Reserved for fire department		72,592		72,592
Unreserved	<u>92,209</u>	<u></u>	<u></u>	<u>92,209</u>
TOTAL FUND BALANCE	<u>92,209</u>	<u>72,592</u>	<u>139,628</u>	<u>304,429</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>94,511</u>	\$ <u>72,592</u>	\$ <u>139,628</u>	\$ <u>306,731</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	SPECIAL REVENUE	CAPITAL PROJECTS	PERMANENT FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES				
Charges for services	\$ 116,672	\$	\$	\$ 116,672
Interest and rentals	717	4,602		5,319
Other revenues	<u>126,290</u>	<u></u>	<u>2,700</u>	<u>128,990</u>
TOTAL REVENUES	<u>243,679</u>	<u>4,602</u>	<u>2,700</u>	<u>250,981</u>
EXPENDITURES				
Other	<u>231,680</u>	<u></u>	<u></u>	<u>231,680</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>11,999</u>	<u>4,602</u>	<u>2,700</u>	<u>19,301</u>
OTHER FINANCING SOURCES				
Operating transfers in	<u>50,000</u>	<u>30,000</u>	<u></u>	<u>80,000</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	61,999	34,602	2,700	99,301
FUND BALANCE, JULY 1	<u>30,210</u>	<u>37,990</u>	<u>136,928</u>	<u>205,128</u>
FUND BALANCE, JUNE 30	<u>\$ 92,209</u>	<u>\$ 72,592</u>	<u>\$ 139,628</u>	<u>\$ 304,429</u>

See accompanying notes to financial statements.

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CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF NET ASSETS

COMPONENT UNITS

JUNE 30, 2008

	LDFA ISLAND INDUSTRIAL PARK	TIFA I DOWNTOWN DEVELOPMENT AUTHORITY	TIFA II ENTERPRISE INDUSTRIAL PARK	TOTAL
ASSETS				
Cash	\$ 5,596,845	\$ 158,760	\$	\$ 5,755,605
Advance from other fund	186,461			186,461
Prepaid contribution		30,170		30,170
Investment in land		131,278		131,278
Capital assets	<u>858,407</u>	<u>239,184</u>	<u></u>	<u>1,097,591</u>
TOTAL ASSETS	<u>\$ 6,641,713</u>	<u>\$ 559,392</u>	<u>\$</u>	<u>\$ 7,201,105</u>
LIABILITIES				
Accounts payable	\$ 17,946	\$	\$	\$ 17,946
Due to the State of Michigan	3,339,868			3,339,868
Due to other funds	46,176			46,176
Accrued interest	967			967
Accrued wages	1,003			1,003
Long-term liabilities				
Portion due within one year	75,000	10,344		85,344
Portion due after one year	<u>100,000</u>	<u>19,826</u>	<u></u>	<u>119,826</u>
TOTAL LIABILITIES	<u>3,580,960</u>	<u>30,170</u>	<u></u>	<u>3,611,130</u>
NET ASSETS				
Reserved for TIFA I		443,708		443,708
Reserved for the Eaton Rapids Historical Society		85,514		85,514
Reserved for debt service	75,173			75,173
Unreserved	<u>2,985,580</u>	<u></u>	<u></u>	<u>2,985,580</u>
TOTAL NET ASSETS	<u>3,060,753</u>	<u>529,222</u>	<u></u>	<u>3,589,975</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,641,713</u>	<u>\$ 559,392</u>	<u>\$</u>	<u>\$ 7,201,105</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2008

		PROGRAM REVENUES	
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
Component Units			
LDFA Island Industrial Park	\$ 99,192	\$	\$
TIFA I Downtown Development Authority	69,733		
Total Component Units	<u>\$ 168,925</u>	<u>\$</u>	<u>\$</u>

See accompanying notes to financial statements.

PROGRAM REVENUES CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	LDFA ISLAND INDUSTRIAL PARK	TIFA I DOWNTOWN DEVELOPMENT AUTHORITY	TIFA II ENTERPRISE INDUSTRIAL PARK	TOTAL
\$	\$ (99,192)	\$	\$	\$ (99,192)
		(69,733)		(69,733)
\$	(99,192)	(69,733)		(168,925)
General Revenues				
Property taxes	902,402	109,001		1,011,403
Miscellaneous	7,541	18		7,559
Unrestricted investment earnings	174,053	6,284		180,337
Excess captured property taxes	(464,811)			(464,811)
Total General Revenues	619,185	115,303		734,488
Change in Net Assets	519,993	45,570		565,563
NET ASSETS, JULY 1	2,490,760	483,652	2,140	2,976,552
OPERATING TRANSFER IN	50,000			50,000
RESIDUAL EQUITY TRANSFER			(2,140)	(2,140)
NET ASSETS, JUNE 30	\$ 3,060,753	\$ 529,222	\$	\$ 3,589,975

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CITY OF EATON RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Eaton Rapids was incorporated under the laws of the State of Michigan in 1837. The City operates under an elected Mayor - Council (five members) form of government and provides the following services: public safety, highways and streets, water, electricity, sanitation, recreation, public improvements, planning, zoning, and general and administrative services.

The accounting policies of the City of Eaton Rapids conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

All funds and account groups under direct control of the City of Eaton Rapids are included in this report. These funds and account groups are those which meet the criteria established by the Governmental Accounting Standards Board (GASB) 14, The Financial Reporting Entity and Statement on Michigan Governmental Accounting and Auditing No. 5.

As required by U.S. generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Eaton Rapids (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The criteria established by GASB for determining which of the City's various organizations and activities are to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships.

Discretely Presented Component Units

The TIFA I Downtown Development Authority, TIFA II Enterprise Industrial Park, and LDFA Island Industrial Park of the City of Eaton Rapids, entities legally separate from the City, are governed by a nine member board appointed by the City Council. For financial reporting purposes, the TIFA I, TIFA II, and LDFA are reported in the component unit column in the combined financial statements. These units are reported in a separate column to emphasize that they are legally separate from the City.

Blended Component Units

The City of Eaton Rapids council established the City of Eaton Rapids Building Authority under Public Act 31 of Michigan. The three member Authority board's purpose will be to acquire, improve, and maintain buildings other than infrastructure for the City of Eaton Rapids purpose.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government of the City of Eaton Rapids and its component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for services. The primary government of the City of Eaton Rapids is reported separately from certain legally separate component units for which the City of Eaton Rapids, the primary government, is financially accountable.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - Continued

B. Government-Wide and Fund Financial Statements - Concluded

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In the individual fund statements and schedules, the proprietary funds and fiduciary fund financial statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City of Eaton Rapids.

The City of Eaton Rapids reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those to be accounted for in another fund.

The Major Street Fund accounts for major street improvements and resurfacing projects.

The Local Street Fund accounts for local street improvements and resurfacing projects.

The Parks and Recreation Fund accounts for the activities used to run and maintain the community center and parks throughout the City.

The Building Authority Bond Fund (blended component unit) is used to account for the resources accumulated and payments made for principal and interest payments on these bonds.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

C. Measurement Focus, Basis of Accounting and Financial Statements - Concluded

The City of Eaton Rapids reports the following major proprietary funds:

The Utility Fund accounts for the activities and operations of the electric plant, water and sewage treatment plant and the sewage pumping stations.

Additionally, the City of Eaton Rapids reports the following fund types:

Internal Service Funds are used to account for Motor Pool Services and Public Employee Benefits provided to other departments on a cost reimbursement basis.

The Cemetery Perpetual Care Fund is used to account for resources legally held in trust to be used for cemetery perpetual care. All resources of the fund, including any earnings on invested resources, may be used to support the organization's activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City of Eaton Rapids has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the Utility Fund and other functions and segments.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services and privileges provided 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. All taxes are reported as general revenue.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from provided services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City of Eaton Rapids' policy to use restricted resources first. Unrestricted resources are used as they are needed.

D. Receivables

Receivables have been recognized for all significant amounts due the City. Allowances have not been made for uncollectible amounts because, if they remain unpaid, most delinquent receivables can be added to the tax roll and become a lien against the property.

E. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City of Eaton Rapids as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

E. Capital Assets - Concluded

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in government-wide statements and all proprietary financial statements. Accumulated depreciation is reported on government-wide and proprietary statement of net assets. The straight-line depreciation method is applied over the estimated useful life of fixed assets.

The straight-line depreciation method is used for all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

ASSET CLASS	DEPRECIABLE LIFE
Land	n/a
Land improvements	10-20 years
Buildings	10-40 years
Equipment	5-20 years
Vehicles	3-10 years
Utility systems	10-40 years
Streets	20-25 years
Bridges	20-25 years
Sidewalks	20-25 years

F. Long-Term Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using straight line amortization. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Bond discounts are reported as other financing uses. Issuances costs, whether or not withheld from the actual debt received, are reported as debt service.

G. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

H. Deposits and Investments

All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are defined as cash equivalents. All investments for both the primary government and all the component units are reported at fair value.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Concluded**

I. Restricted Assets

Certain proceeds of the Utility Fund, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

J. Cash and Cash Equivalents

For purposes of the statements of cash flows, the proprietary and fiduciary funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

K. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first regular Council meeting in May, the Budget Committee submits to the City Council a proposed operating budget for the fiscal year beginning the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Not later than the third Monday in June, the budget is legally enacted through passage of a resolution.
4. The City Manager is authorized to make budgetary transfers between the line items of departments established through this budget, except salaries/wages and capital outlay items, with all transfers reported to the City Council at its next regular meeting. All transfers between departments and all transfers of salaries/wages and capital outlay items within departments may be made only by City Council action.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. Budgets for General, Special Revenue and Debt Service Funds are adopted on a basis consistent with U.S. generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the City Council during the fiscal year. Individual amendments were not material in relation to the original appropriations which were amended.
7. All annual appropriations lapse at year end.

The General Fund budget is adopted on an activity level basis, and the Special Revenue Funds budgets are adopted on a total fund level.

L. Investments

Investments are stated at cost, which is equal to market.

M. Inventory

Inventory is valued at the lower of cost (FIFO) or market.

N. Fund Equity Reserves and Designations

Portions of fund equity are segregated for future use and are, therefore, not available for future appropriations or expenditures. Retained earnings and fund balance reserves represent these amounts which are legally, contractually, or otherwise segregated for future use.

Designations of unreserved fund balances in governmental funds indicate the City's tentative plans for use of financial resources in a future period.

NOTE 2: ACCUMULATED VACATION AND SICK LEAVE

Accrued vacation and sick leave is recorded as a governmental fund liability at June 30, 2008, to the extent that it is to be liquidated with expendable available financial resources within the current operating cycle.

Vacation days are earned by employees at a rate of 10 to 25 days per year.

Sick days are earned by employees at a rate of 3 days per year. Sick days may be banked with a cap of 240 hours. At the time an employee leaves the City, the banked time would be paid out at 50% of what was in the bank at the rate the time was earned.

Personal leave days are earned by employees at a rate of 5 to 12 days per year.

The accumulated vacation and sick leave balance for all funds as of June 30, 2008 was \$144,969.

NOTE 3: COMMON CASH ACCOUNT

Cash resources from individual funds are combined to form a pool of cash and investments which is managed by the City Treasurer. The equity in cash and investments of the various funds at June 30, 2008 is as follows:

FUND	COMMON CASH AND CASH EQUIVALENTS	INVESTMENTS CERTIFICATES OF DEPOSIT
General	\$ 530,980	\$
Major	405,066	
Local	342,732	
Act 302	15,258	55,036
Parks and recreation	61,280	36,690
Public improvement	72,592	
Building department	77,952	
Drug law enforcement	1,301	
Building authority	528	
Utility		
Unrestricted	846,152	
Restricted	126,970	1,648,560
Public employee benefit	584	
Motor vehicle pool	350,144	
Tax fund	1,310	
Cemetery perpetual care	139,628	
TIFA I/DDA	158,760	
LDFA	5,596,845	
Trust and Agency	753	
TOTAL	<u>\$ 8,728,835</u>	<u>\$ 1,740,286</u>
Financial statement presentation		
Governmental funds	\$ 1,998,045	\$ 91,726
Proprietary funds	846,152	1,648,560
Fiduciary funds	2,063	
Component units	5,755,605	
Restricted cash		
- customer meter deposits	<u>126,970</u>	
TOTAL	<u>\$ 8,728,835</u>	<u>\$ 1,740,286</u>

NOTE 3: **COMMON CASH ACCOUNT** – Continued

In accordance with Michigan Compiled Laws, the City Treasurer is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits of \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2008, the carrying amount of the City's deposits was \$10,468,345 and the bank balance was \$10,545,024, of which \$291,726 was covered by federal depository insurance. The remaining balance of \$10,253,298 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the City held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year end.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2008, the City did not have any investment that would be subject to rating.

Interest Rate Risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designing its portfolio in a manner to attain a market rate of return throughout the budgetary and economic cycles while preserving and protecting capital.

NOTE 3: **COMMON CASH ACCOUNT** – Concluded

Concentration of Credit Risk

The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio to prevent over concentration of assets in a specific maturity, individual financial institution, or specific class of securities.

Custodial Credit Risk

The City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by:

- ? Limiting investments to the types of securities listed in the City's investment policy.
- ? Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the City will do business in accordance with the City's investment policy.

In October, 2008, U.S. Congress passed an Emergency Economic Stabilization law that temporarily raised the FDIC to \$250,000. The basic deposit insurance will return to \$100,000 after December 31, 2009.

NOTE 4: **INTERFUND RECEIVABLES AND PAYABLES**

The following are the interfund receivables and payables at June 30, 2008:

FUND	INTERFUND RECEIVABLE	FUND	INTERFUND PAYABLE
Utility Fund	\$ <u>46,176</u>	LDFA Fund	\$ <u>46,176</u>
General Fund	<u>144,543</u>	Utility Fund	<u>144,543</u>
Motor Vehicle Fund	<u>16,327</u>	General	<u>16,327</u>
TOTALS	\$ <u>207,046</u>	TOTALS	\$ <u>207,046</u>

All interfund loans were made for operating purposes.

The interfund receivables and payables were netted for the statement of assets.

NOTE 5: **PROPERTY TAXES**

Property taxes become an enforceable lien on the property as of July 1. Taxes are levied on July 1 and are payable by August 31. The City bills and collects its own property taxes and also taxes for the county, intermediate school district, and other school districts. All tax collections are accounted for in a trust and agency fund.

The City is permitted by state statute and City Charter to levy 8.5538 mills for general governmental services. A total of 8.5538 mills were levied. The residents of the City have approved an additional .8551 mill for recreation. A total of 9.4089 mills were levied. The total 2007 levy was for general operating purposes. An additional 4.1800 mills was also assessed for wastewater improvements.

NOTE 6: CHANGES IN CAPITAL ASSETS

A summary of changes in governmental capital assets including internal service fund assets are as follows:

	JULY 1, 2007	ADDITIONS	DELETIONS	JUNE 30, 2008
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 877,077	\$	\$	\$ 877,077
Work in process				
Infrastructure	<u>13,646</u>	<u> </u>	<u>13,646</u>	<u> </u>
Total capital assets not being depreciated	<u>890,723</u>	<u> </u>	<u>13,646</u>	<u>877,077</u>
Capital assets being depreciated				
Buildings and improvements	5,062,678			5,062,678
Land improvements	691,894	87,260		779,154
Vehicles	1,043,871	25,903	23,434	1,046,340
Machinery and equipment	574,568	13,450		588,018
Books	120,436	22,424	13,610	129,250
Infrastructure	<u>115,467</u>	<u> </u>	<u> </u>	<u>115,467</u>
Total capital assets being depreciated	<u>7,608,914</u>	<u>149,037</u>	<u>37,044</u>	<u>7,720,907</u>
Less: Accumulated depreciation				
Buildings and improvements	1,873,098	93,643		1,966,741
Land improvements	173,615	27,898		201,513
Vehicles	467,691	77,920	23,434	522,177
Machinery and equipment	409,206	44,256		453,462
Books	56,643	21,557	13,610	64,590
Infrastructure	<u>10,952</u>	<u>7,698</u>	<u> </u>	<u>18,650</u>
Total accumulated depreciation	<u>2,991,205</u>	<u>272,972</u>	<u>37,044</u>	<u>3,227,133</u>
Total capital assets being depreciated - net	<u>4,617,709</u>	<u>(123,935)</u>	<u> </u>	<u>4,493,774</u>
NET CAPITAL ASSETS	\$ <u>5,508,432</u>	\$ <u>(123,935)</u>	\$ <u>13,646</u>	\$ <u>5,370,851</u>

Depreciation expense of \$272,972 was allocated as follows:

General government	\$ 49,892
Public safety	70,653
Public works	22,738
Culture and recreation	28,363
Other	<u>101,326</u>
TOTAL	\$ <u>272,972</u>

NOTE 6: **CHANGES IN CAPITAL ASSETS** - Concluded

A summary of the asset activity for the governmental activity component units are as follows:

COMPONENT UNITS	JULY 1, 2007	ADDITIONS	DELETIONS	JUNE 30, 2008
Work in progress	\$ <u> </u>	\$ <u>98,556</u>	\$ <u> </u>	\$ <u>98,556</u>
Land and improvements	\$ <u>999,035</u>	\$ <u> </u>	\$ <u> </u>	\$ <u>999,035</u>

Capital assets for business-type activities have been summarized as follows:

BUSINESS-TYPE ACTIVITIES	JULY 1, 2007	ADDITIONS	DELETIONS	JUNE 30, 2008
Capital assets not being depreciated				
Work in process	\$ <u> </u>	\$ <u>190,858</u>	\$ <u> </u>	\$ <u>190,858</u>
Capital assets being depreciated				
Water	6,912,306	94,370		7,006,676
Electric	6,739,789	133,841		6,873,630
Sewage	<u>14,128,978</u>	<u>32,654</u>	<u> </u>	<u>14,161,632</u>
Total capital assets being depreciated	<u>27,781,073</u>	<u>260,865</u>	<u> </u>	<u>28,041,938</u>
Less: Accumulated depreciation				
Water	2,802,762	195,157		2,997,919
Electric	3,814,174	343,858		4,158,032
Sewage	<u>4,073,462</u>	<u>605,584</u>	<u> </u>	<u>4,679,046</u>
Total accumulated depreciation	<u>10,690,398</u>	<u>1,144,599</u>	<u> </u>	<u>11,834,997</u>
Total capital assets being depreciated	<u>17,090,675</u>	(<u>883,734</u>)	<u> </u>	<u>16,206,941</u>
NET CAPITAL ASSETS	\$ <u>17,090,675</u>	\$ (<u>692,876</u>)	\$ <u> </u>	\$ <u>16,397,799</u>

Depreciation expense for the business-type activities was charged to the following functions and activities of the primary government:

Water	\$ 195,157
Electric	343,858
Sewage	<u>605,584</u>
	\$ <u>1,144,599</u>

NOTE 7: **LONG-TERM DEBT OBLIGATIONS**

The changes in long-term debt obligations for the City of Eaton Rapids primary government and component units for the year ended June 30, 2008 are as follows:

	BALANCE, JULY 1, 2007	ADDITIONS (DEDUCTIONS)	BALANCE, JUNE 30, 2008	DUE WITHIN ONE YEAR
Governmental Activities -				
Primary Government				
\$3,650,000 Building Authority Bonds Series 2005 due in annual installments of \$150,000 to \$275,000 through March, 2022 with interest ranging from 3.50% to 5.20% per annum. The debt requirements will be paid with general operating funds.	\$ <u>3,025,000</u>	\$ (<u>150,000</u>)	\$ 2,875,000	\$ <u>150,000</u>
Less: amounts payable within one year			(<u>150,000</u>)	
TOTAL LONG-TERM OBLIGATIONS GOVERNMENTAL ACTIVITIES PRIMARY GOVERNMENT			\$ <u>2,725,000</u>	
Component Units				
\$975,000 1994 Local Development Finance Authority Bonds due in annual installments of \$75,000 to \$100,000 through December 1, 2010; interest at 6.40% to 6.90%.	\$ 250,000	\$ (75,000)	\$ 175,000	\$ 75,000
\$51,720 DDA loan to Eaton Federal Savings Bank. The loan is due in monthly installments of \$862 including interest of 6.25% through June, 2011.	<u>40,514</u>	(<u>10,344</u>)	<u>30,170</u>	<u>10,344</u>
TOTAL COMPONENT UNITS	\$ <u>290,514</u>	\$ (<u>85,344</u>)	205,170	\$ <u>85,344</u>
Less: amounts payable within one year			(<u>85,344</u>)	
TOTAL LONG-TERM OBLIGATIONS GOVERNMENTAL ACTIVITIES COMPONENT UNITS			\$ <u>119,826</u>	

NOTE 7: **LONG-TERM DEBT OBLIGATIONS** – Continued

	BALANCE, JULY 1, 2007	ADDITIONS (DEDUCTIONS)	BALANCE, JUNE 30, 2008	DUE WITHIN ONE YEAR
Business-Type Activities				
\$1,475,000 Water Supply System Bonds, Series 1991 due in annual installments of \$85,000 to \$130,000 through November 1, 2011; interest at 6.25% to 6.50% .	\$ 570,000	\$(100,000)	\$ 470,000	\$ 105,000
\$1,494,806 Drinking Water Bonds due in annual installments of \$70,000 to \$84,806; interest at 2.50%. The bonds are due in full in April, 2020.	1,029,806	(70,000)	959,806	70,000
\$358,000 Note payable to Steve Mair for purchase of generator. The note is due in monthly installments of \$4,250 with interest of 7.00% to 8.50%. The note is due in January , 2009.	74,885	(46,971)	27,914	27,914
\$200,000 Community Development Block Grant due in quarterly installments of \$5,566 including interest at 5% per annum. The note is due in 2017.	165,782	(14,206)	151,576	14,932
\$9,545,000 WWTP Improvement Bonds due in annual installments of \$405,000 to \$580,000 with interest at 2.125%. The proceeds of these bonds are on a reimbursement basis. The bonds are due in April, 2026.	<u>8,658,294</u>	(<u>395,000</u>)	<u>8,263,294</u>	<u>405,000</u>
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 10,498,767</u>	<u>\$(626,177)</u>	9,872,590	<u>\$ 622,846</u>
Less: amounts payable within one year			<u>622,846</u>	
TOTAL LONG-TERM OBLIGATIONS BUSINESS-TYPE ACTIVITIES			<u>\$ 9,249,744</u>	

NOTE 7: **LONG-TERM DEBT OBLIGATIONS** - Concluded

Annual debt service requirements to maturity for primary government obligations are as follows:

YEAR ENDING JUNE 30,	GOVERNMENTAL ACTIVITIES			BUSINESS-TYPE ACTIVITIES		
	PRINCIPAL	INTEREST	TOTALS	PRINCIPAL	INTEREST	TOTALS
2009	\$ 150,000	\$ 141,100	\$ 291,100	\$ 622,846	\$ 241,909	\$ 864,755
2010	150,000	134,800	284,800	610,696	225,420	836,116
2011	150,000	128,275	278,275	631,499	214,155	845,654
2012	175,000	121,600	296,600	652,344	194,871	847,215
2013	175,000	113,726	288,726	533,231	170,622	703,853
2014-2018	1,025,000	432,978	1,457,978	2,838,875	665,145	3,504,020
2019-2023	1,050,000	138,726	1,188,726	2,774,806	350,890	3,125,696
2023-2026				1,208,293	70,324	1,278,617
	<u>\$ 2,875,000</u>	<u>\$ 1,211,205</u>	<u>\$ 4,086,205</u>	<u>\$ 9,872,590</u>	<u>\$ 2,133,336</u>	<u>\$ 12,005,926</u>

Annual debt service requirements to maturity for component unit long-term obligations are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL	INTEREST	TOTALS
2009	\$ 85,344	\$ 9,450	\$ 94,794
2010	110,344	3,450	113,794
2011	<u>9,482</u>		<u>9,482</u>
	<u>\$ 205,170</u>	<u>\$ 12,900</u>	<u>\$ 218,070</u>

NOTE 8: **DEFINED BENEFIT PENSION PLAN**

Plan Description

The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945 as amended. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement system issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units, and requires a contribution from the employees of 0 - 10 percent of gross wages.

Annual Pension Cost

For the pension year ended December 31, 2007, the City's annual pension contribution of \$318,805 for the plan was over the City's required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) 2 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a ten year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years. This information from MERS is based on calendar year rather than the City's fiscal year ended.

NOTE 8: **DEFINED BENEFIT PENSION PLAN** - Concluded

	MERS FISCAL YEAR ENDED DECEMBER 31,				
	2003	2004	2005	2006	2007
Annual pension cost	\$ 215,878	\$ 225,067	\$ 272,533	\$ 291,312	\$ 305,868
Percentage of APC contributed	100%	100%	100%	100%	100%
Net pension obligation					
Actuarial value of assets	4,007,573	4,475,760	4,924,974	5,544,591	6,091,049
Actuarial Accrued Liability	6,420,544	7,345,974	8,068,776	8,612,312	9,288,439
Unfunded AAL	2,412,971	2,870,214	3,143,802	3,067,721	3,197,390
Funded ratio	62%	61%	61%	64%	65%
Covered payroll	2,043,337	2,063,018	2,110,103	2,181,467	2,277,341
UALL as a percentage of covered payroll	118%	139%	144%	141%	140%

NOTE 9: **OPERATING TRANSFERS**

The following are the operating transfers for the year ending June 30, 2008:

FUND	TRANSFERS IN	FUND	TRANSFERS OUT
General	\$ <u>775,441</u>	Utility	\$ <u>775,441</u>
Parks and Recreation	<u>3,000</u>	General	<u>3,000</u>
Building Department	<u>50,000</u>	General	<u>50,000</u>
Local Street	<u>20,000</u>	Major Street	<u>20,000</u>
Public Improvement	<u>30,000</u>	Utility	<u>30,000</u>
Motor Pool	152,500	General	24,000
	<u>152,500</u>	Utility	<u>128,500</u>
Subtotal	<u>152,500</u>	Subtotal	<u>152,500</u>
LDFA	<u>50,000</u>	Utility	<u>50,000</u>
Debt Service - Building Authority	<u>297,100</u>	Utility	<u>297,100</u>
TOTAL	\$ <u>1,378,041</u>	TOTAL	\$ <u>1,378,041</u>

All interfund transfers were made for operating purposes.

NOTE 10: SEGMENT INFORMATION FOR INDIVIDUAL ENTERPRISE FUNDS

	UTILITY FUND	INTERNAL SERVICE FUND
Operating revenues	\$ 8,912,105	\$ 611,467
Depreciation	1,144,599	67,507
Operating income (loss)	501,469	(114,917)
Operating transfers in (out)	(1,281,041)	152,500
Net income (loss)	(281,997)	32,436
Property, plant and equipment		
Additions	451,723	25,903
Net working capital	583,046	323,609
Total assets	20,285,946	836,270
Total equity	9,429,130	649,809

NOTE 11: CONTINGENCIES AND LITIGATION

As of June 30, 2008, there were no lawsuits pending against the City.

The City continues to monitor and perform annual testing of the City's landfill that has been closed for several years. Michigan Department of Environmental Quality requires that this maintenance be performed.

NOTE 12: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN INDIVIDUAL FUNDS

P.A. 621 of 1978 provides that Cities and other local units of government shall not incur expenditures in excess of the amounts appropriated in the formal budget document adopted by the City Council.

For the year ended June 30, 2008, the City of Eaton Rapids had the following funds which had expenditures which exceeded the budgets adopted by the City Council:

FUND/FUND TYPE	FINAL BUDGET	ACTUAL	UNFAVORABLE VARIANCE
GENERAL FUND			
Administration			
City Council	\$ 29,670	\$ 30,211	\$(541)
Assessor	89,725	91,928	(2,203)
Attorney	152,000	152,781	(781)
Clerk/Treasurer	69,920	70,054	(134)
Cemetery	158,004	160,326	(2,322)
Public Works	521,478	532,829	(11,351)
Community Development	6,400	6,862	(462)
Capital Outlay	51,950	56,159	(4,209)
Operating transfers out	27,000	77,000	(50,000)
SPECIAL REVENUE FUND			
Major Streets	300,700	324,848	(24,148)
Local Streets	281,300	285,149	(3,849)
Parks and Recreation	126,250	133,489	(7,239)
Building Department	103,222	104,844	(1,622)

NOTE 13: **FUND EQUITY RESERVES**

As disclosed in Note 1-N, portions of fund equity are segregated for future use and are, therefore, not available for future appropriation or expenditure. These fund equity reserves as of June 30, 2008 are as follows:

NET ASSETS:

GOVERNMENTAL

Reserved for Fire Department Equipment

This amount reflects the fund balance to be used for fire department equipment.

Reserved for Island Project

This amount represents monies that are to be used for restoration of the City of Eaton Rapids Island Park.

Reserved for Building Authority

This amount reflects the fund balance reserved for the Public Safety Building and City Hall Building.

Reserved for Perpetual Care

This amount reflects the portion of retained earnings to be used for the Cemetery Perpetual Care.

Reserved for Bond/Note Retirement

This amount reflects the City's savings due to the wholesale interruptible rate savings. These monies are to be used for debt retirement of the Water Supply System Bonds.

Reserved for Water

These amounts reflect the portion of retained earnings to be used for purchasing fixed assets and equipment for the water department.

Reserved for Sewer

These amounts reflect the portion of retained earnings to be used for purchasing fixed assets and equipment for the sewer department.

Reserved for Electric

These amounts reflect the portion of retained earnings to be used for purchasing fixed assets and equipment for the Electric Department.

Reserved for Economic Development

These amounts reflect the portion of retained earnings to be used for future insurance on investment of Magnesium Products.

COMPONENT UNITS

Reserved for TIFA I

This amount reflects the fund balance to be used for public improvement projects in the corresponding districts.

Reserved for Eaton Rapids Area Historical Society

This amount reflects monies to be contributed to the Eaton Rapids Area Historical Society to help preserve a historical building.

Reserved for Debt Service

All Debt Service Funds' fund balances are designated by City management to be utilized for future debt service expenditures.

NOTE 14: WORKERS' COMPENSATION INSURANCE

The City belongs to the Michigan Municipal Liability and Property Pool for disability worker's compensation insurance.

The Michigan Municipal Liability and Property Pool was established in 1982 under Public Act 138 of 1982, as amended by Public Act 36 of 1988, to develop and administer a group program of liability and property self insurance for Michigan municipalities. The objectives of the Pool are to establish and administer a municipal risk management service, to reduce the incidence of property and casualty losses occurring in the operation of local governmental functions, and to defend members of the Pool against stated liability or loss.

Member contributions are combined to provide each member with coverage for liability and property claims. Any funds not needed to pay claims and maintain prudent reserves will be available for distribution to the members or credit toward future member contributions.

NOTE 15: FUND BALANCE

The City had no funds in a deficit position as of June 30, 2008.

NOTE 16: RESIDUAL EQUITY TRANSFER

The cash balance for TIFA II, \$2,140, was transferred to the general fund during the year.

NOTE 17: LONG-TERM LEASE

The Building Authority is a party to a long-term lease agreement for rental of the public safety building to the City of Eaton Rapids, Michigan. The lease stipulates that fixed annual rentals will be paid to the Authority by the City of Eaton Rapids, Michigan and such rentals are pledged exclusively for payment of principal and interest on the Building Authority bonds. In addition, the City pledges its unlimited tax, full faith, and credit as security under the lease. Fixed annual rentals will cease after all bonds have been retired and advance rentals repaid on March 1, 2022. The lease agreement provides, further, that after all bonds are retired and advance rentals repaid, title to the land and buildings will vest to the City of Eaton Rapids.

The long-term lease has been accounted for as a capital lease in the debt service fund. The net leasehold receivable represents the present value of future minimum lease payments due from the City. Revenue represented by the non-current portion of the receivable is deferred until it becomes a current receivable. Future minimum lease payments scheduled to be received by the Authority from the City (including unearned finance income of \$1,211,205 are as follows:

YEAR	AMOUNT
2009	\$ 291,100
2010	284,800
2011	278,275
2012	296,600
2013	288,725
2014	280,588
Thereafter	<u>2,366,117</u>
	<u>\$ 4,086,205</u>

NOTE 18: DUE TO STATE – LOCAL FINANCE DEVELOPMENT AUTHORITY (LDFA)

As of June 30, 2008, the City has recorded a liability due to the State of Michigan for excess capture of LDFA property taxes 1995 to 2007 over the obligated debt for this district. The actual amount due at June 30, 2008 is \$3,339,868. Payments are expected to begin by December 31, 2008.

NOTE 19: ADVANCE TO/ADVANCE FROM

In 2008, the LDFA board approved a loan to the motor vehicle fund to help with the purchase of a new fire truck in the amount of \$230,000. The loan will be paid in annual installments plus interest at the current bank prime rate. The loan is due in 2012. The outstanding balance as of June 30, 2008 was \$186,461.

The annual payment schedule is as follows:

YEAR	AMOUNT
2009	\$ 44,736
2010	45,966
2011	47,230
2012	<u>48,529</u>
	<u>\$ 186,461</u>

NOTE 20: AGREEMENT WITH EATON RAPIDS AREA HISTORICAL SOCIETY

In 2006, the City of Eaton Rapids Downtown Development Authority (DDA) entered into an agreement with Eaton Rapids Area Historical Society (ERAHS) to help purchase the Red Ribbon Hall building, a historical building in the downtown area. The agreement states that the Downtown Development Authority will contribute \$862 including interest of 6.25% monthly to Eaton Federal Savings Bank over the next five years. The total contribution totals \$51,720. In 2011, Eaton Rapids Area Historical Society shall obtain financing for the remaining cost of Red Ribbon Hall, totaling approximately \$88,280. Eaton Rapids Area Historical Society agrees to repay the Downtown Development Authority \$9,327 for a portion of the principal paid for this note. If Eaton Rapids Area Historical Society fails to provide the additional financing, then the title of Red Ribbon Hall will be transferred to the Downtown Development Authority. The balance owed as of June 30, 2008 is \$30,170.

The City of Eaton Rapids Downtown Development Authority annual contribution requirements are as follows:

YEAR ENDING JUNE 30,	AMOUNT
2009	\$ 10,344
2010	10,344
2011	<u>9,482</u>
	<u>\$ 30,170</u>

The City of Eaton Rapids Downtown Development Authority has also agreed to provide a grant of \$45,000 to be used to help in the renovation of Red Ribbon Hall. This grant will be administered as the renovation expenses are incurred.

NOTE 21: SUBSEQUENT EVENT

The City had two separate bond issues in November, 2008: One for a Utility Fund Capital Improvement Project in the amount of \$555,000 and the second for a LDFA Project in the amount of \$2,945,000.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Taxes				
Property taxes	\$ 998,442	\$ 998,442	\$ 988,420	\$ (10,022)
Penalties and interest	12,500	12,000	11,346	(654)
Trailer fee	1,000	1,000	893	(107)
Total Taxes	<u>1,011,942</u>	<u>1,011,442</u>	<u>1,000,659</u>	<u>(10,783)</u>
Licenses and Permits				
Licenses	300	300	440	140
Franchise fees	<u>27,000</u>	<u>21,000</u>	<u>27,730</u>	<u>6,730</u>
Total Licenses and Permits	<u>27,300</u>	<u>21,300</u>	<u>28,170</u>	<u>6,870</u>
Intergovernmental				
State aid and sales tax	<u>424,562</u>	<u>408,720</u>	<u>479,873</u>	<u>71,153</u>
Charges for Services				
Administrative fees	80,000	68,772	74,137	5,365
Video fees	<u>3,000</u>	<u>3,000</u>	<u>1,892</u>	<u>(1,108)</u>
Total Charges for Services	<u>83,000</u>	<u>71,772</u>	<u>76,029</u>	<u>4,257</u>
Reimbursements			<u>472</u>	<u>472</u>
Fines and Forfeits	<u>33,900</u>	<u>28,400</u>	<u>56,025</u>	<u>27,625</u>
Other Revenues				
Interest on investments	22,000	7,200	32,247	25,047
Rentals	29,030	55,730	75,082	19,352
Sales	33,000	25,000	27,006	2,006
Miscellaneous	<u>47,800</u>	<u>91,170</u>	<u>105,940</u>	<u>14,770</u>
Total Other Revenues	<u>131,830</u>	<u>179,100</u>	<u>240,275</u>	<u>61,175</u>
TOTAL REVENUES	<u>1,712,534</u>	<u>1,720,734</u>	<u>1,881,503</u>	<u>160,769</u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL - Continued

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2008

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
EXPENDITURES				
General Government				
City Council	\$ 30,670	\$ 29,670	\$ 30,211	\$ (541)
City Manager	1,500	1,000	787	213
General election	800	4,800	4,559	241
Assessor	91,725	89,725	91,928	(2,203)
Attorney	100,000	152,000	152,781	(781)
Clerk-Treasurer	63,620	69,920	70,054	(134)
Board of review	750	750	661	89
Buildings and grounds	12,500	18,500	18,355	145
Planning commission	2,160	1,660	1,315	345
Zoning board of appeals	600	300		300
Senior citizens	6,000	6,000	6,000	
City election	5,500	5,000	4,535	465
General - allocated	110,500	101,500	100,098	1,402
Total General Government	426,325	480,825	481,284	(459)
Public Safety				
Police	918,556	890,556	886,386	4,170
Fire	81,045	89,045	88,103	942
Total Public Safety	999,601	979,601	974,489	5,112
Public Works				
Public services	528,478	521,478	532,829	(11,351)
Community Development and Enrichment				
Library	225,970	220,770	218,251	2,519
Other	5,500	6,400	6,862	(462)
Total Community Development and Enrichment	231,470	227,170	225,113	2,057
Other Functions				
Cemetery	147,004	158,004	160,326	(2,322)
Storm sewers	18,937	40,937	38,482	2,455
Ambulance	9,200	9,200	6,602	2,598
Capital outlay	49,950	51,950	56,159	(4,209)
Contingencies	10	10		10
Total Other Functions	225,101	260,101	261,569	(1,468)
TOTAL EXPENDITURES	2,410,975	2,469,175	2,475,284	(6,109)

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL - Concluded

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2008

	<u>BUDGETED AMOUNTS</u>			VARIANCE FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
DEFICIENCY OF REVENUES OVER EXPENDITURES	\$ <u>(698,441)</u>	\$ <u>(748,441)</u>	\$ <u>(593,781)</u>	\$ <u>154,660</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	775,441	775,441	775,441	
Operating transfers out	<u>(77,000)</u>	<u>(27,000)</u>	<u>(77,000)</u>	<u>(50,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>698,441</u>	<u>748,441</u>	<u>698,441</u>	<u>(50,000)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES			104,660	104,660
FUND BALANCE, JULY 1	686,670	686,670	686,670	
RESIDUAL EQUITY TRANSFER IN	<u> </u>	<u> </u>	<u>2,140</u>	<u>2,140</u>
FUND BALANCE, JUNE 30	\$ <u><u>686,670</u></u>	\$ <u><u>686,670</u></u>	\$ <u><u>793,470</u></u>	\$ <u><u>106,800</u></u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

MAJOR STREET FUND

FOR THE YEAR ENDED JUNE 30, 2008

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
REVENUES				
State grants	\$ 263,470	\$ 310,700	\$ 289,994	\$ (20,706)
Interest on investments	<u>10,000</u>	<u>10,000</u>	<u>14,275</u>	<u>4,275</u>
TOTAL REVENUES	<u>273,470</u>	<u>320,700</u>	<u>304,269</u>	<u>(16,431)</u>
EXPENDITURES				
Highways and streets	<u>253,470</u>	<u>300,700</u>	<u>324,848</u>	<u>(24,148)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>20,000</u>	<u>20,000</u>	<u>(20,579)</u>	<u>(40,579)</u>
OTHER FINANCING USES				
Operating transfers out	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>	
DEFICIENCY OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES			(40,579)	(40,579)
FUND BALANCE, JULY 1	<u>485,838</u>	<u>485,838</u>	<u>485,838</u>	
FUND BALANCE, JUNE 30	\$ <u><u>485,838</u></u>	\$ <u><u>485,838</u></u>	\$ <u><u>445,259</u></u>	\$ <u><u>(40,579)</u></u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

LOCAL STREET FUND

FOR THE YEAR ENDED JUNE 30, 2008

	<u>BUDGETED AMOUNTS</u>			VARIANCE FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
REVENUES				
State grants	\$ 87,675	\$ 87,675	\$ 90,679	\$ 3,004
Federal grants		65,725	65,726	1
Interest on investments	15,000	15,000	14,529	(471)
Other revenue			5,016	5,016
TOTAL REVENUES	<u>102,675</u>	<u>168,400</u>	<u>175,950</u>	<u>7,550</u>
EXPENDITURES				
Highways and streets	<u>122,675</u>	<u>281,300</u>	<u>285,149</u>	<u>(3,849)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(20,000)</u>	<u>(112,900)</u>	<u>(109,199)</u>	<u>3,701</u>
OTHER FINANCING SOURCES				
Operating transfers in	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	
DEFICIENCY OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES		(92,900)	(89,199)	3,701
FUND BALANCE, JULY 1	<u>482,498</u>	<u>482,498</u>	<u>482,498</u>	
FUND BALANCE, JUNE 30	<u>\$ 482,498</u>	<u>\$ 389,598</u>	<u>\$ 393,299</u>	<u>\$ 3,701</u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

PARKS AND RECREATION FUND

FOR THE YEAR ENDED JUNE 30, 2008

	<u>BUDGETED AMOUNTS</u>			VARIANCE FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
REVENUES				
Taxes	\$ 94,603	\$ 94,603	\$ 99,920	\$ 5,317
Charges for services	9,500	9,500	12,078	2,578
Interest and rent	900	900	6,756	5,856
Other revenues	<u>3,000</u>	<u>18,247</u>	<u>28,175</u>	<u>9,928</u>
TOTAL REVENUES	<u>108,003</u>	<u>123,250</u>	<u>146,929</u>	<u>23,679</u>
EXPENDITURES				
Culture and recreation	104,553	119,800	131,605	(11,805)
Capital outlay	<u>6,450</u>	<u>6,450</u>	<u>1,884</u>	<u>4,566</u>
TOTAL EXPENDITURES	<u>111,003</u>	<u>126,250</u>	<u>133,489</u>	<u>(7,239)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(3,000)</u>	<u>(3,000)</u>	<u>13,440</u>	<u>(16,440)</u>
OTHER FINANCING SOURCES				
Operating transfers in	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES			16,440	(16,440)
FUND BALANCE, JULY 1	<u>93,377</u>	<u>93,377</u>	<u>93,377</u>	
FUND BALANCE, JUNE 30	<u>\$ 93,377</u>	<u>\$ 93,377</u>	<u>\$ 109,817</u>	<u>\$ (16,440)</u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

BLENDED COMPONENT UNIT - BUILDING AUTHORITY

FOR THE YEAR ENDED JUNE 30, 2008

	<u>BUDGETED AMOUNTS</u>			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES	\$ _____	\$ _____	\$ _____	\$ _____
EXPENDITURES				
Note principal	150,000	150,000	150,000	
Note interest and fees	<u>147,100</u>	<u>154,600</u>	<u>148,350</u>	<u>6,250</u>
TOTAL EXPENDITURES	<u>297,100</u>	<u>304,600</u>	<u>298,350</u>	<u>6,250</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(297,100)</u>	<u>(304,600)</u>	<u>(298,350)</u>	<u>6,250</u>
OTHER FINANCING SOURCES				
Operating transfers in	<u>297,100</u>	<u>304,600</u>	<u>297,100</u>	<u>(7,500)</u>
DEFICIENCY OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES			(1,250)	(1,250)
FUND BALANCE, JULY 1	<u>1,778</u>	<u>1,778</u>	<u>1,778</u>	
FUND BALANCE, JUNE 30	\$ <u><u>1,778</u></u>	\$ <u><u>1,778</u></u>	\$ <u><u>528</u></u>	\$ <u><u>(1,250)</u></u>

GENERAL FUND

The General Fund exists to account for the resources devoted to finance the services traditionally associated with local government. Included in these services are police and fire protection, building safety and general administration of the City. Any other activity for which a special fund has not been created is accounted for in the General Fund.

CITY OF EATON RAPIDS, MICHIGAN

GENERAL FUND

BALANCE SHEET

JUNE 30, 2008

ASSETS

Cash and cash equivalents	\$	530,980
Accounts receivable - other		7,093
Taxes receivable		2,737
Due from other funds		144,543
Due from other units		<u>188,993</u>
TOTAL ASSETS	\$	<u><u>874,346</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$	53,834
Accrued payroll and payroll taxes		<u>27,042</u>
TOTAL LIABILITIES		<u>80,876</u>

FUND BALANCE

Unreserved and undesignated		<u>793,470</u>
TOTAL LIABILITIES AND FUND BALANCE	\$	<u><u>874,346</u></u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2008

			VARIANCE FAVORABLE (UNFAVORABLE)
	BUDGET	ACTUAL	
REVENUES			
Taxes	\$ 1,011,442	\$ 1,000,659	\$ (10,783)
Licenses and permits	21,300	28,170	6,870
Intergovernmental			
State	408,720	479,873	71,153
Charges for services	71,772	76,029	4,257
Reimbursements		472	472
Fines and forfeitures	28,400	56,025	27,625
Interest	7,200	32,247	25,047
Rentals	55,730	75,082	19,352
Sales	25,000	27,006	2,006
Other	<u>91,170</u>	<u>105,940</u>	<u>14,770</u>
TOTAL REVENUES	1,720,734	1,881,503	160,769
EXPENDITURES	<u>2,469,175</u>	<u>2,475,284</u>	<u>(6,109)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(748,441)</u>	<u>(593,781)</u>	<u>154,660</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	775,441	775,441	
Operating transfers out	<u>(27,000)</u>	<u>(77,000)</u>	<u>(50,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>748,441</u>	<u>698,441</u>	<u>(50,000)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES		104,660	104,660
FUND BALANCE, JULY 1	686,670	686,670	
RESIDUAL EQUITY TRANSFER IN		<u>2,140</u>	<u>2,140</u>
FUND BALANCE, JUNE 30	\$ <u><u>686,670</u></u>	\$ <u><u>793,470</u></u>	\$ <u><u>106,800</u></u>

CITY OF EATON RAPIDS, MICHIGAN

GENERAL FUND

STATEMENT OF EXPENDITURES

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2008

			VARIANCE FAVORABLE (UNFAVORABLE)
EXPENDITURES	BUDGET	ACTUAL	
Administration			
City Council	\$ 29,670	\$ 30,211	\$ (541)
City Manager	1,000	787	213
General election	4,800	4,559	241
Assessor	89,725	91,928	(2,203)
Attorney	152,000	152,781	(781)
Clerk - Treasurer	69,920	70,054	(134)
Board of review	750	661	89
Building and grounds	18,500	18,355	145
Planning commission	1,660	1,315	345
Zoning board of appeals	300		300
Senior citizens	6,000	6,000	
City election	5,000	4,535	465
General - unallocated	101,500	100,098	1,402
Police	890,556	886,386	4,170
Cemetery	158,004	160,326	(2,322)
Fire	89,045	88,103	942
Public works	521,478	532,829	(11,351)
Storm sewers	40,937	38,482	2,455
Library	220,770	218,251	2,519
Community development	6,400	6,862	(462)
Ambulance	9,200	6,602	2,598
Capital outlay	51,950	56,159	(4,209)
Contingencies	10		10
TOTAL EXPENDITURES	\$ <u>2,469,175</u>	\$ <u>2,475,284</u>	\$ <u>(6,109)</u>

NON-MAJOR SPECIAL REVENUE FUNDS

A Special Revenue Fund is used to finance particular activities and is created out of receipts of specific taxes or other earmarked revenues. Such funds are authorized by statutory or charter provisions to pay for certain activities with some special form of continuing revenues.

The City's non-major Special Revenue Funds are the Act 302 Training, Building Department, Drug Law Enforcement Fund, and MSHDA Pass Through Grant.

CITY OF EATON RAPIDS, MICHIGAN
COMBINING BALANCE SHEET
NON- MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2008

	ACT 302 TRAINING	BUILDING DEPARTMENT	DRUG LAW ENFORCEMENT	MSHDA PASS THROUGH GRANT	TOTALS
ASSETS					
Cash and cash equivalents	\$ <u>15,258</u>	\$ <u>77,952</u>	\$ <u>1,301</u>	\$ <u></u>	\$ <u>94,511</u>
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable	\$	\$ 746	\$	\$	\$ 746
Accrued payroll and taxes	<u></u>	<u>1,556</u>	<u></u>	<u></u>	<u>1,556</u>
TOTAL LIABILITIES	<u></u>	<u>2,302</u>	<u></u>	<u></u>	<u>2,302</u>
FUND BALANCE					
Unreserved and undesignated	<u>15,258</u>	<u>75,650</u>	<u>1,301</u>	<u></u>	<u>92,209</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>15,258</u>	\$ <u>77,952</u>	\$ <u>1,301</u>	<u></u>	\$ <u>94,511</u>

CITY OF EATON RAPIDS, MICHIGAN
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2008

	ACT 302 TRAINING	BUILDING DEPARTMENT	DRUG LAW ENFORCEMENT	MSHDA PASS THROUGH GRANT	TOTALS
REVENUES					
Charges for services	\$	\$ 116,316	\$ 356	\$	\$ 116,672
Interest	480	198	39		717
Other revenue		349		125,941	126,290
TOTAL REVENUES	<u>480</u>	<u>116,863</u>	<u>395</u>	<u>125,941</u>	<u>243,679</u>
EXPENDITURES					
Community development	477				477
Other		104,844	418	125,941	231,203
TOTAL EXPENDITURES	<u>477</u>	<u>104,844</u>	<u>418</u>	<u>125,941</u>	<u>231,680</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	3	12,019	(23)		11,999
OPERATING TRANSFER IN		<u>50,000</u>			<u>50,000</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES					
	3	62,019	(23)		61,999
FUND BALANCE, JULY 1	<u>15,255</u>	<u>13,631</u>	<u>1,324</u>		<u>30,210</u>
FUND BALANCE, JUNE 30	<u>\$ 15,258</u>	<u>\$ 75,650</u>	<u>\$ 1,301</u>	<u>\$</u>	<u>\$ 92,209</u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

ACT 302 TRAINING

FOR THE YEAR ENDED JUNE 30, 2008

	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Interest	\$ <u>200</u>	\$ <u>480</u>	\$ <u>280</u>
EXPENDITURES			
Community development	<u>1,600</u>	<u>477</u>	<u>1,123</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,400)	3	1,403
FUND BALANCE, JULY 1	<u>15,255</u>	<u>15,255</u>	<u></u>
FUND BALANCE, JUNE 30	\$ <u><u>13,855</u></u>	\$ <u><u>15,258</u></u>	\$ <u><u>1,403</u></u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

BUILDING DEPARTMENT

FOR THE YEAR ENDED JUNE 30, 2008

	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Charges for services	\$ 53,172	\$ 116,316	\$ 63,144
Interest income		198	198
Other	<u>50</u>	<u>349</u>	<u>299</u>
TOTAL REVENUES	<u>53,222</u>	<u>116,863</u>	<u>63,641</u>
EXPENDITURES			
Other	<u>103,222</u>	<u>104,844</u>	<u>1,622</u>
EXCESS OF REVENUES OVER EXPENDITURES	(50,000)	(12,019)	62,019
OPERATING TRANSFER IN	<u>50,000</u>	<u>50,000</u>	
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES		62,019	62,019
FUND BALANCE, JULY 1	<u>13,631</u>	<u>13,631</u>	
FUND BALANCE, JUNE 30	\$ <u><u>13,631</u></u>	\$ <u><u>75,650</u></u>	\$ <u><u>62,019</u></u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

DRUG LAW ENFORCEMENT

FOR THE YEAR ENDED JUNE 30, 2008

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Fines and forfeitures	\$ 390	\$ 356	\$ (34)
Interest	<u>30</u>	<u>39</u>	<u>9</u>
TOTAL REVENUES	<u>420</u>	<u>395</u>	<u>(25)</u>
EXPENDITURES			
Public safety	<u>420</u>	<u>418</u>	<u>2</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES		(23)	(23)
FUND BALANCE, JULY 1	<u>1,324</u>	<u>1,324</u>	<u></u>
FUND BALANCE, JUNE 30	\$ <u><u>1,324</u></u>	\$ <u><u>1,301</u></u>	\$ <u><u>(23)</u></u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

MSHDA PASS THROUGH GRANT

FOR THE YEAR ENDED JUNE 30, 2008

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
MSHDA revenue	\$ <u>130,199</u>	\$ <u>125,941</u>	\$ <u>(4,258)</u>
EXPENDITURES			
Other	<u>130,199</u>	<u>125,941</u>	<u>4,258</u>
EXCESS OF REVENUES OVER EXPENDITURES			
FUND BALANCE, JULY 1	<u> </u>	<u> </u>	<u> </u>
FUND BALANCE, JUNE 30	\$ <u><u> </u></u>	\$ <u><u> </u></u>	\$ <u><u> </u></u>

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NONMAJOR CAPITAL PROJECTS FUNDS

Capital Projects Funds are designed to account for the resources expended to acquire assets of a relatively permanent nature. (Enterprise Fund resources are not included in this category). These funds satisfy the special accounting requirements for bond proceeds and projects utilizing more than one funding source.

Capital Projects Funds provide a formal mechanism which enables administrators to ensure that revenues dedicated to a certain purpose are used only for that purpose, and further enables them to report to creditors and other grantors of Capital Projects Funds revenue, that their requirement regarding the use of the revenue was fully satisfied.

The Public Improvement Fund operates as a Capital Projects Fund.

CITY OF EATON RAPIDS, MICHIGAN
NON-MAJOR CAPITAL PROJECTS FUND
BALANCE SHEET
PUBLIC IMPROVEMENT
JUNE 30, 2008

ASSETS

Cash and cash equivalents

\$ 72,592

FUND BALANCE

Reserved for fire department

\$ 72,592

CITY OF EATON RAPIDS, MICHIGAN
NON-MAJOR CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PUBLIC IMPROVEMENT
FOR THE YEAR ENDED JUNE 30, 2008

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Interest earned	\$ <u>100</u>	\$ <u>4,602</u>	\$ <u>4,502</u>
OTHER FINANCING SOURCES			
Operating transfers in	<u>30,000</u>	<u>30,000</u>	<u></u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	30,100	34,602	4,502
FUND BALANCE, JULY 1	<u>37,990</u>	<u>37,990</u>	<u></u>
FUND BALANCE, JUNE 30	\$ <u><u>68,090</u></u>	\$ <u><u>72,592</u></u>	\$ <u><u>4,502</u></u>

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ENTERPRISE FUNDS

Enterprise Funds are used to account for the acquisition, operation and maintenance of governmental facilities and services which are entirely or predominately self-supporting by user charges. The significant characteristic of Enterprise Funds is that the accounting system must make it possible to show whether the activity is operated at a profit or loss, similar to comparable private enterprise. Thus, the reports of Enterprise Funds are self-contained and creditors, legislators or the general public can evaluate the performance of the municipal enterprise on the same basis as they can the performance of investor-owned enterprises in the same industry.

The Utility Fund is operated as an Enterprise Fund.

CITY OF EATON RAPIDS, MICHIGAN

UTILITY FUND

BALANCE SHEET

JUNE 30,2008

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	846,152
Receivables		
Accounts - net of allowance for doubtful accounts of \$8,005 in 2008		818,201
Note receivable - current portion		1,008
Due from other funds		46,176
Inventory - at lower of cost or market		<u>350,875</u>
TOTAL CURRENT ASSETS		<u>2,062,412</u>

RESTRICTED ASSETS

Electric utility reserve		
Certificate of deposit		461,647
Accrued interest receivable		1,545
Customer meter deposits		126,970
Sewer reserve		
Certificate of deposit		223,987
Accrued interest receivable		2,761
Bond retirement reserve		
Certificate of deposit		612,587
Accrued interest receivable		23,096
Economic Development Reserve		
Certificate of deposit		350,339
Accrued interest receivable		<u>4,318</u>
TOTAL RESTRICTED ASSETS		<u>1,807,250</u>

PROPERTY, PLANT AND EQUIPMENT

Work in progress		190,858
Water department		7,006,676
Electric department		6,873,630
Sewage department		<u>14,161,632</u>
		28,232,796
Less: accumulated depreciation		<u>11,834,997</u>
NET PROPERTY PLANT AND EQUIPMENT		<u>16,397,799</u>

OTHER ASSETS

Note receivable - long-term		<u>18,485</u>
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TOTAL ASSETS	\$	<u><u>20,285,946</u></u>
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LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

Bonds payable	\$ 580,000
Note payable	42,846
Accounts payable	564,146
Accrued interest payable	61,434
Accrued sick and vacation	34,714
Accrued payroll and payroll taxes	25,668
Due to other funds	160,870
Due to state	10,424

TOTAL CURRENT LIABILITIES	1,480,102
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LONG-TERM DEBT

Bond payable	9,113,100
Note payable	136,644

TOTAL LONG-TERM DEBT	9,249,744
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RESTRICTED LIABILITIES

Refundable meter deposits	126,970
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TOTAL LIABILITIES	10,856,816
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RETAINED EARNINGS

Reserved for Economic Development	460,354
Reserved for bond/note retirement	506,473
Reserved for Electric Utility	543,119
Reserved for Sewer Utility	587,763
Reserved for Water Utility	183,337
Unreserved	7,148,084

TOTAL RETAINED EARNINGS	9,429,130
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TOTAL LIABILITIES AND FUND EQUITY	\$ 20,285,946
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CITY OF EATON RAPIDS, MICHIGAN

UTILITY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

FOR THE YEAR ENDED JUNE 30, 2008

OPERATING REVENUES	
Charges for services	\$ 8,807,225
Fines and forfeitures	22,337
Other revenue	<u>82,543</u>
TOTAL OPERATING REVENUES	<u>8,912,105</u>
OPERATING EXPENSES	
Operating expenses	7,266,037
Depreciation	<u>1,144,599</u>
TOTAL OPERATING EXPENSES	<u>8,410,636</u>
OPERATING INCOME	<u>501,469</u>
NON-OPERATING REVENUES (EXPENSES)	
Federal grant	12,816
Property taxes	595,124
Interest expense and fees on bonds	(250,993)
Interest income on investments	<u>140,628</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>497,575</u>
NET INCOME BEFORE OPERATING TRANSFERS	999,044
OPERATING TRANSFERS OUT	<u>(1,281,041)</u>
NET LOSS	(281,997)
RETAINED EARNINGS, JULY 1	<u>9,711,127</u>
RETAINED EARNINGS, JUNE 30	<u><u>\$ 9,429,130</u></u>

CITY OF EATON RAPIDS, MICHIGAN

UTILITY FUND

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 8,779,391
Cash received from penalties	22,337
Cash received from miscellaneous sources	95,359
Payments to suppliers	(6,326,687)
Payments to employees	(1,059,850)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,510,550</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from note receivable	984
Interest income	149,795
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>150,779</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Federal grant	12,816
Loan to other funds	(25,050)
Loan from other funds	8,777
Operating transfers out	(1,281,041)
NET CASH USED IN NON-CAPITAL FINANCING ACTIVITIES	<u>(1,284,498)</u>

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Property taxes	595,124
Increase in restricted assets	7,254
Decrease in restricted liabilities	(7,250)
Principal payments on long-term debt	(626,177)
Interest and fiscal charges	(255,528)
Purchase of capital assets	(451,723)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(738,300)</u>

**NET DECREASE IN CASH AND
CASH EQUIVALENTS**

CASH AND CASH EQUIVALENTS, JULY 1	<u>1,207,621</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u><u>\$ 846,152</u></u>

CITY OF EATON RAPIDS, MICHIGAN
UTILITY FUND
STATEMENT OF CASH FLOWS - Concluded
FOR THE YEAR ENDED JUNE 30, 2008

RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 501,469
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	1,144,599
Change in assets and liabilities	
Increase in accounts receivable	(15,018)
Decrease in inventory	(51,059)
Increase in accounts payable	(71,878)
Increase in accrued payroll	5,541
Decrease accrued sick and vacation	(1,885)
Increase in other liabilities	(1,219)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>1,510,550</u></u>

CITY OF EATON RAPIDS, MICHIGAN
UTILITY FUND
ANALYSIS OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008

	ELECTRIC DEPARTMENT	WATER DEPARTMENT	SEWAGE DEPARTMENT	TOTAL
REVENUES				
Charges for services	\$ 7,170,280	\$ 830,917	\$ 806,028	\$ 8,807,225
Fines and forfeitures	22,337			22,337
Other revenue	<u>76,909</u>	<u>4,103</u>	<u>1,531</u>	<u>82,543</u>
TOTAL REVENUES	<u>7,269,526</u>	<u>835,020</u>	<u>807,559</u>	<u>8,912,105</u>
OPERATING EXPENSES	5,748,944	571,129	945,964	7,266,037
DEPRECIATION	<u>343,858</u>	<u>195,157</u>	<u>605,584</u>	<u>1,144,599</u>
TOTAL OPERATING EXPENSES	<u>6,092,802</u>	<u>766,286</u>	<u>1,551,548</u>	<u>8,410,636</u>
OPERATING INCOME (LOSS)	<u>1,176,724</u>	<u>68,734</u>	<u>(743,989)</u>	<u>501,469</u>
NON-OPERATING REVENUES (EXPENSES)				
Federal grant		12,816		12,816
Property taxes			595,124	595,124
Interest expense and fees on bonds	(4,024)	(8,559)	(238,410)	(250,993)
Interest income on investments	<u>116,781</u>	<u>14,547</u>	<u>9,300</u>	<u>140,628</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>112,757</u>	<u>18,804</u>	<u>366,014</u>	<u>497,575</u>
NET INCOME (LOSS) BEFORE OPERATING TRANSFERS	1,289,481	87,538	(377,975)	999,044
OPERATING TRANSFERS OUT	<u>(1,281,041)</u>			<u>(1,281,041)</u>
NET INCOME (LOSS)	<u>\$ 8,440</u>	<u>\$ 87,538</u>	<u>\$ (377,975)</u>	<u>\$ (281,997)</u>

CITY OF EATON RAPIDS, MICHIGAN
UTILITY FUND
STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008

	ELECTRIC	WATER	SEWAGE	TOTAL
OPERATING EXPENSES				
Personnel services	\$ 436,009	\$ 249,206	\$ 378,290	\$ 1,063,505
Contractual services	60,825	28,028	129,601	218,454
Supplies	15,514	9,700	11,494	36,708
Materials	58,526	68,098	34,768	161,392
Utilities	2,306	35,883	138,710	176,899
Telephone	16,371	2,889	4,337	23,597
Insurance	20,669	9,238	10,969	40,876
Maintenance	4,886,817	32,277	54,150	4,973,244
Benefit payments	221,610	131,259	168,201	521,070
Other expense	<u>30,297</u>	<u>4,551</u>	<u>15,444</u>	<u>50,292</u>
TOTAL OPERATING EXPENSES	\$ <u><u>5,748,944</u></u>	\$ <u><u>571,129</u></u>	\$ <u><u>945,964</u></u>	\$ <u><u>7,266,037</u></u>

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments, on a cost or reimbursement basis.

The Public Employee Benefit Fund and Motor Vehicle Pool are operated as Internal Service Funds.

CITY OF EATON RAPIDS, MICHIGAN

COMBINING BALANCE SHEET

INTERNAL SERVICE FUNDS

AS OF JUNE 30, 2008

	PUBLIC EMPLOYEE BENEFIT	MOTOR VEHICLE POOL	TOTAL
CURRENT ASSETS			
Cash and cash equivalents	\$ 584	\$ 350,144	\$ 350,728
Due from other funds	<u> </u>	<u>16,327</u>	<u>16,327</u>
	<u>584</u>	<u>366,471</u>	<u>367,055</u>
EQUIPMENT			
Vehicles		679,336	679,336
Less: accumulated depreciation	<u> </u>	<u>210,121</u>	<u>210,121</u>
NET EQUIPMENT	<u> </u>	<u>469,215</u>	<u>469,215</u>
TOTAL ASSETS	<u>\$ 584</u>	<u>\$ 835,686</u>	<u>\$ 836,270</u>
LIABILITIES AND RETAINED EARNINGS			
CURRENT LIABILITIES			
Advance payable to LDFA	\$ <u> </u>	\$ <u>44,736</u>	\$ <u>44,736</u>
LONG-TERM LIABILITIES			
Advance payable to LDFA	<u> </u>	<u>141,725</u>	<u>141,725</u>
RETAINED EARNINGS			
Unreserved	<u>584</u>	<u>649,225</u>	<u>649,809</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u>\$ 584</u>	<u>\$ 835,686</u>	<u>\$ 836,270</u>

CITY OF EATON RAPIDS, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	PUBLIC EMPLOYEE BENEFIT	MOTOR VEHICLE POOL	TOTAL
OPERATING REVENUES			
Contributions from other funds	\$ 596,813	\$	\$ 596,813
Other revenue	<u>10,846</u>	<u>3,808</u>	<u>14,654</u>
TOTAL OPERATING REVENUES	<u>607,659</u>	<u>3,808</u>	<u>611,467</u>
OPERATING EXPENSES			
Depreciation		67,507	67,507
Other		8,480	8,480
Benefit payments	<u>650,397</u>		<u>650,397</u>
TOTAL OPERATING EXPENSES	<u>650,397</u>	<u>75,987</u>	<u>726,384</u>
OPERATING LOSS	<u>(42,738)</u>	<u>(72,179)</u>	<u>(114,917)</u>
NON-OPERATING REVENUES (EXPENSES)			
Gain on sale of capital assets		243	243
Interest income	106	829	935
Interest expense		<u>(6,325)</u>	<u>(6,325)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>106</u>	<u>(5,253)</u>	<u>(5,147)</u>
NET LOSS BEFORE OPERATING TRANSFERS	(42,632)	(77,432)	(120,064)
OPERATING TRANSFERS IN		<u>152,500</u>	<u>152,500</u>
NET INCOME (LOSS)	(42,632)	75,068	32,436
RETAINED EARNINGS, JULY 1	<u>43,216</u>	<u>574,157</u>	<u>617,373</u>
RETAINED EARNINGS, JUNE 30	\$ <u><u>584</u></u>	\$ <u><u>649,225</u></u>	\$ <u><u>649,809</u></u>

CITY OF EATON RAPIDS, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	PUBLIC EMPLOYEE BENEFIT	MOTOR VEHICLE POOL	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from other funds	\$ 596,813	\$	\$ 596,813
Cash received from miscellaneous	10,846	3,808	14,654
Payment to vendors	<u>(650,397)</u>	<u>(24,807)</u>	<u>(675,204)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(42,738)</u>	<u>(20,999)</u>	<u>(63,737)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Payment on interfund borrowing		(49,864)	(49,864)
Interest received	106	829	935
Operating transfers in	<u></u>	<u>152,500</u>	<u>152,500</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>106</u>	<u>103,465</u>	<u>103,571</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from sale of vehicles		243	243
Purchase of capital assets	<u></u>	<u>(25,904)</u>	<u>(25,904)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u></u>	<u>(25,661)</u>	<u>(25,661)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(42,632)	56,805	14,173
CASH AND CASH EQUIVALENTS, JULY 1	<u>43,216</u>	<u>293,339</u>	<u>336,555</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 584</u>	<u>\$ 350,144</u>	<u>\$ 350,728</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES			
Operating loss	\$ (42,738)	\$ (72,179)	\$ (114,917)
Adjustments to reconcile operating loss to net cash provided by operating activities			
Depreciation		67,507	67,507
Changes in assets and liabilities			
Due from other funds	<u></u>	<u>(16,327)</u>	<u>(16,327)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (42,738)</u>	<u>\$ (20,999)</u>	<u>\$ (63,737)</u>

PERMANENT FUNDS

The permanent funds exist to account for resources legally held in trust to be used for Cemetery Perpetual Care Fund.

CITY OF EATON RAPIDS, MICHIGAN
PERMANENT FUND
COMBINING BALANCE SHEET
JUNE 30, 2008

		NONEXPENDABLE
		TRUST FUND
		CEMETERY
		PERPETUAL
		CARE FUND
ASSETS		
Cash and cash equivalents	\$	<u>139,628</u>
FUND BALANCE		
Reserved for perpetual care	\$	<u>139,628</u>

CITY OF EATON RAPIDS, MICHIGAN

PERMANENT FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED JUNE 30, 2008

	CEMETERY PERPETUAL CARE FUND
REVENUES	
Perpetual care receipts	\$ <u>2,700</u>
EXPENDITURES	
Other	<u> </u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>2,700</u>
FUND BALANCE, JULY 1	<u>136,928</u>
FUND BALANCE, JUNE 30	\$ <u><u>139,628</u></u>

CITY OF EATON RAPIDS, MICHIGAN
PERMANENT FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

	CEMETERY PERPETUAL CARE FUND
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	\$ <u>2,700</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,700
CASH AND CASH EQUIVALENTS, JULY 1	<u>136,928</u>
CASH AND CASH EQUIVALENTS, JUNE 30	\$ <u><u>139,628</u></u>



Layton & Richardson, P.C.

Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and City Council
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Eaton Rapids, Michigan

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We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and the remaining aggregate fund information of the City of Eaton Rapids, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City of Eaton Rapids, Michigan's basic financial statements and have issued our report thereon dated December 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Eaton Rapids, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Eaton Rapids, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Eaton Rapids, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Eaton Rapids, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Eaton Rapids, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the City of Eaton Rapids, Michigan's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

07-1 SEGREGATION OF DUTIES

Due to the limited personnel in the accounting department, the City lacks segregation of duties over several areas, including cash receipting, journal entry processes, and cash disbursements. The limited size of the staff does not allow for segregating duties. The City should be aware of these areas and attempt to establish procedures to minimize this lack of controls.

07-2 PREPARATION OF FINANCIAL STATEMENTS

Michigan governments are required to prepare financial statements in accordance with U.S. generally accepted accounting principles (GAAP). Responsibility for the financial statements of the City rests with the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

The condition noted in the preceding paragraph exists at the City of Eaton Rapids. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the City's annual financial statements and notes to the financial statements in accordance with GAAP. The City relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

07-3 FRAUD RISK MANAGEMENT PROGRAM

During the course of our audit, we noted that the City has not developed or implemented a fraud risk management program. Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct.

Fraud is defined as the intentional, false representation or concealment of a material fact. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Due to the City not developing a fraud risk assessment and monitoring program it is unable to assess the organization's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of the financial statements.

We recommend that the City develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

08-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

For the proper recognition of accrual accounting, material journal entries were proposed by the auditors. These misstatements were not detected by the City's internal control over financial reporting. Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements, including the notes to financial statements in conformity with U.S. generally accepted accounting principles. The auditor can not be a part of internal controls.

We recommend the City take steps to ensure that material journal entries in recognition of accrual accounting are done before the audit is performed.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Eaton Rapids, Michigan's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Eaton Rapids, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

07-4 DISTRIBUTION OF PROPERTY TAX COLLECTIONS

During the course of our audit, it was noted that the City was delinquent in distributing tax revenues paid in 2008 for property tax years 2007 and prior that were collected for another taxing unit.

We recommend that the City analyze the balance of the undistributed property taxes so that it may be distributed appropriately. We also recommend that the City distribute future property tax collections in a timely manner.

07-5 ELECTRONIC TRANSACTION RESOLUTION

During our analysis of internal controls, it was noted that the Council has not implemented a written electronic transaction resolution as required by Michigan Compiled Law. Public Act 738 of 2002 requires that local units of government that utilize electronic transactions adopt a written Electronic Transaction Resolution. This issue was noted and reported in our previous audit comments.

We recommend the City prepare a formal electronic transaction resolution that complies with the compiled law and adopt it through City action as soon as possible.

We noted certain matters that we reported to management of the City of Eaton Rapids, Michigan, in a separate letter dated December 18, 2008.

This report is intended solely for the information and use of management and City Council and is not intended to be and should not be used by anyone other than these specified parties.

Layton + Richardson PC

Certified Public Accountants

East Lansing, Michigan
December 18, 2008

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Layton & Richardson, P.C.

Certified Public Accountants

LETTER OF COMMENTS AND RECOMMENDATIONS

Honorable Mayor and City Council
City of Eaton Rapids
Eaton Rapids, Michigan

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East Lansing, MI 48823

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We have examined the financial statements of the CITY OF EATON RAPIDS, MICHIGAN for the year ended June 30, 2008, and have issued our report thereon dated December 18, 2008. As part of our audit, we made a study and evaluation of the City's system of internal accounting controls to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Accordingly, we do not express an opinion on the system of internal accounting control taken as a whole.

The management of the City of Eaton Rapids is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all weaknesses in the system. However, our examination did disclose the following conditions that we believe result in a risk that errors or irregularities in amounts that would be material in relation to the financial statements of the City of Eaton Rapids may occur and not be detected within a timely period.

We noted the following recommendations concerning internal control weaknesses:

PRIOR YEAR RECOMMENDATIONS

UTILITY RECEIVABLES

An adjustment had to be made to balance the utilities receivables to the general ledger. We recommend that the utility receivable trial balance be reconciled monthly to the general ledger. This will ensure more accuracy in the utility billing procedures. **This is currently in the process of being corrected. Current year status: This recommendation has not been implemented.**

PROPERTY TAXES

We recommend that the tax fund general ledger be reconciled with property tax software on a monthly basis to ensure that all property tax collections and payments are recorded properly. **Management response: This is now being reconciled on a monthly basis.**

During our audit we noticed that names were changed on the delinquent tax reports from year to year. We recommend that the changes be investigated to determine whether the changes are due to human error or a computer error. **Current year status: The delinquent tax reports are now balanced to the black book in the vault.**

PRIOR YEAR RECOMMENDATIONS – Continued

GENERAL

The City does not have a written internal control policy. We recommend that the City create a written internal control policy stating that deviation from these policies is a possible firing offense. This will prevent fraud and make everyone aware of the City's policy on fraud. **Current year status: This recommendation has not been implemented.**

PAYROLL

We noted during our testing the individual who prepares payroll is the same individual who prepares the payroll tax returns. We recommend the individual who prepares the payroll tax returns be independent of the payroll processing function. This will improve controls over payroll. **Management response: This process is currently being implemented. However, we noted during our audit that a second individual reviews the payroll tax returns. Current year status: This recommendation has been implemented.**

During our audit, we noted that the same person who prepares electronic funds transfers also receives the bank confirmations. We recommend the City Manager authorize EFT transactions and receive all EFT confirmations from the bank and compare to the authorized transactions. **Management response: The City Manager or City Treasurer only have approval to sign wire payments. The City Treasurer does compare all wire transfers to bank statements each month. We noted during our audit that the individual who authorizes wire transfers also does the bank reconciliation. We recommend a second authorization be required for all wire transfers. Current year status: This recommendation has not been implemented.**

During our audit, we noted that the bank statements are not reviewed by an independent person prior to reconciliation. We recommend that the City Manager or someone independent of payroll process receive the unopened statements, open and review the statements for unusual activity, and initial the statements prior to giving to the person performing the reconciliation. **We noted during our audit that the statements are not being initialed. Current year status: This recommendation has not been implemented. Management response: This has been implemented.**

During our audit, we noted that MERS earnings and contributions are not reviewed by an individual independent of the data entry. We recommend that the City request a printout of entered data and an individual independent of the data entry compare the printout with payroll records. Also, the contribution confirmation should be received and reviewed by a person independent of making the electronic transmission. **Management response: MERS does send confirmation by department total to the City verifying payment was received. Also, all MERS reports will be reviewed prior to submission of contributions. Current year status: This recommendation has not been implemented.**

CASH DISBURSEMENTS

We noted during our audit that the person who prepares disbursements also approves invoices for payment. We recommend that the City Manager approve all City Hall invoices (invoices not for the departments) for payment. Implementing this recommendation will separate the approval and payments function and improve controls over cash disbursements. The invoices go to the department heads for review and approval. We recommend the department head initial the invoice. This will involve another individual, thereby, creating a segregation of duties between invoice approval and disbursement. **Management response: All invoices are being approved and authorized for payment. We noted during our audit this year that some invoices are still missing department head approval and one individual is still performing the duties of invoice approval and disbursement. Current year status: This recommendation has not been implemented.**

We recommend attaching a "Tax Receipt Summary Statistics" from the resource software program to any tax disbursements. This will improve controls over disbursements by providing supporting documentation for the amounts paid. **Current year status: This recommendation has been implemented.**

PRIOR YEAR RECOMMENDATIONS – Continued

CASH DISBURSEMENTS - Concluded

While conducting the audit on cash disbursement procedures, we noted an instance where a voided check was not completely defaced. The check stub was still attached to this check. VOID was written half on the check and half on the check stub. The check itself only contained VO. The check was unsigned, but nothing was done to deface the signature lines. We recommend all voided checks be defaced with the signature portion of the check removed. This will improve controls over cash disbursements and help to prevent theft or fraud. **Current year status: This recommendation has been implemented.**

We noted during our audit that debit cards were used for purchases. The purchases are taken directly off of the bank statement so the council does not get to review them. We recommend that all debit cards be cancelled immediately. Credit cards may be used as a replacement. We recommend that receipts be required for all credit card purchases and all credit card receipts be approved by council. **Current year status: This recommendation has been implemented.**

OUTSTANDING CHECKS

At the time of our audit, we noticed that there were several checks that had been outstanding for over a year. Tracking outstanding checks is an important control procedure that ensures all outgoing checks are accounted for. We suggest that the outstanding check list be reviewed periodically and either stop payment notices be issued for old outstanding checks or escheat old outstanding checks to the State, depending on the type of disbursement. **Management response: This will be performed during the current year. Current year status: This recommendation has been implemented.**

FRIENDS OF THE ISLAND

We recommend that a separate bank account be established for the donations and expenditures that are for the Friends of the Island projects. This will help to reduce the chances of these monies being commingled with the City's park operating funds. **Current year status: This recommendation has not been implemented.**

INVENTORY

We noted during our audit that there were differences between the physical inventory counts and the amounts on inventory reports. We recommend that physical count amounts be reconciled with the amounts from the inventory reports and any differences investigated. This will provide better control over inventory. **Current year status: This recommendation has been implemented.**

PETTY CASH

We noted during our examination several petty cash transactions that were not approved by management. We recommend that all petty cash transactions be approved by management or council. We also recommend that all mileage reimbursements be done by cash disbursement or through payroll. This will limit the number of petty cash transactions during the year and improve internal controls. **Current year status: This recommendation has been implemented.**

JOURNAL ENTRIES

We recommend that all journal entries be approved by a second person in management or City Council. An approval will validate the reason for the journal entry and ensure it is posted to the general ledger correctly. **Current year status: This recommendation has not been implemented.**

INSURANCE

We recommend that a second person review all health insurance claims on DRS Services monthly invoices to verify that each claim is represented by a current employee. **Current year status: This recommendation has been implemented.**

PRIOR YEAR RECOMMENDATIONS – Concluded

BUDGETED TRANSFERS

We noted during our audit budget amendments for operating transfers between funds. We recommend that these council approved transfers be done by issuing cash disbursements prior to the City's fiscal year end. This will provide a better audit trail and ensure monies are moved to the proper fund per council approval prior to year end. **Current year status: This recommendation has been implemented.**

POSTEMPLOYMENT BENEFITS

The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. Therefore, the manner in which retiree healthcare benefits are budgeted will not change, unless you begin funding the benefits (however, as discussed below, there are incentives to do so).

The new pronouncement will require a valuation of the obligation to provide retiree healthcare benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, an under funding must be reported as a liability on the government-wide statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. Therefore, funding the contribution will actually reduce your long-run cost. We recommend that the City begin to plan for this adjustment. This will become part of the audited financial statements effective July 1, 2009 with fiscal year ended June 30, 2010.

CURRENT YEAR RECOMMENDATIONS

DISBURSEMENTS

We noted during our testing an instance where faxed copies of invoices were paid. We recommend requiring original invoices.

We noted during our testing an instance where the person approving payment was also the person that was requesting the reimbursement. We recommend having another department head or Treasurer approve the bill so that it is someone other than the person requesting reimbursement.

We noted during our testing an instance where the approval for payment on an invoice was not initialed by the department head, but was considered approved because the department head wrote account numbers on the invoice. We recommend requiring an initial from the department head for approval. This will ensure only appropriate and approved invoices are paid.

CURRENT YEAR RECOMMENDATIONS - Continued

DISBURSEMENTS - Concluded

We noted during our testing an instance where not all pages of an invoice were cancelled. The page that was not cancelled contained the breakdown of the total of the invoice and also listed the total due. We recommend all pages be cancelled after payment. This will help to ensure no source documentation is double paid and therefore increases controls over disbursements.

We noted during our audit a check log is used, but it does not get reviewed. We recommend the check log be reviewed when the checks are signed. We further recommend the reviewer initial and date the check log to document the review.

RECEIPTS

We noted during our audit that the cash drawers are not locked during the day when staff is away from their drawers. We recommend the drawers be locked when they are unattended. This will improve controls over cash receipts by limiting access and by ensuring cash is secured while unattended.

We noted during our audit weaknesses in controls over the cash drawers that creates potential risks. The weakness occurs when the staff personnel attending the drawers change during the day while the cash drawer remains the same. We recommend the City implement a policy and procedure to reduce this risk.

PAYROLL

We noted during our audit that the Fire Department payroll sheets prepared by the Fire Department are not recalculated and verified prior to posting. We recommend City Hall receive detail of the calculation, recalculate it and review source documentation. This will increase controls over payroll and ensure the payroll is accurate.

We noted during our audit an instance where the union dues withheld from employees did not agree to the authorized amount and there was no documentation from the union of the increase in the union dues. We recommend the City obtain and retain changes in union rates from the unions for accurate and complete records.

We noted during our audit that one employee had the incorrect amount of Social Security tax withheld. We recommend that the payroll Social Security wage limit be checked annually to make sure correct amounts are withheld.

PROPERTY TAX RECEIPTS

During our testing we noted an instance where a tax remittance was not stamped paid. We recommend all tax remittances be stamped "paid". Ensuring that each remittance is stamped "paid" when fully paid will provide better controls over property tax receipts.

BOARD MINUTES

We recommend that the City Council minutes include the check number sequence along with the total amount of disbursements. We also recommend that a copy of the check register be included in the City Council minutes and initialed/dated by at least two Council members. This will provide a more permanent record of cash disbursements approved.

COMPUTER/SOFTWARE

We noted during our audit that passwords are not changed at regular intervals. We recommend that passwords be changed at least twice a year. We also recommend that all computer security levels be verified for all employees to ensure individuals have access to only those applications or files that are necessary to perform their duties. This will improve controls over the computer and over the access to the General Ledger.

We noted during our audit that the City has no contingency plan developed in the event of loss or interruption of the computer system. We recommend a contingency plan be established and communicated to appropriate employees as soon as possible. The computer vendor should also be contacted to help with this plan.

We are grateful to the officials and employees of the City of Eaton Rapids for the assistance and cooperation we received during the audit, and we thank them.

Very truly yours,

Layton + Richardson PC

Certified Public Accountants

East Lansing, Michigan
December 18, 2008